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SPECIAL SECTION:

The New Realities of Unemployment Insurance

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'An Even Better Public Servant'

For this Nation to succeed in its desire to reduce the effects of poverty in its midst, the remedial attack on problems of employment, housing, health, education, hunger, and all other related matters must continue. But equally important are those actions designed to prevent additional individuals and families from falling into poverty.

One of the Nation's most important poverty preventive instruments is the unemployment insurance program. Last year over 4 million individuals drew unemployment insurance benefits totaling more than $2 billion, and this was in a year of relatively low unemployment.

Articles in this issue reflect the basic objectives of the unemployment insurance program, its capacity to consider new ways of meeting those objectives, and its capability to expand to meet additional demands. One article discusses the extremely important issue of funding the program, reminding us that the financing formula has not changed in the 30 years the program has been in existence.

The system has a proud history, measured not only in the billions of dollars of spending power it has provided the unemployed, but also in the independence it has helped them preserve. With broader coverage and more adequate benefit payments, it can become an even better public servant.

Robert C. Goodwin
Associate Manpower Administrator
For Unemployment Insurance

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WALL STREET DISCOVERS HIDDEN ASSET

By Emil Michael Aun

Wall Street these days is investing in an asset it used to sell short.

The offices of some of the Street's most illustrious stockbrokers are being staffed by recent graduates from the ranks of the unemployed and underemployed. All of them are handicapped by race or age or education or health, and many of them are poor.

Ruah Bates could not find a job anywhere a year ago, let alone in the Nation's financial center. She was black, 41, and her literacy level was below the fourth grade. Today she is a stock clerk in the New York brokerage firm of Goodbody & Co. earning up to $150 a week, with overtime.

Dorrell Mills, 36, a native of Jamaica, had a reading level score lower than Mrs. Bates. A year ago he was an $85-a-week shipping clerk. Today he is working in the stock division of Brown Brothers Harriman & Co., and earns about $115 a week.

A typical American mixture of social idealism and economic pragmatism has prompted the financial community to let down the bars for people like Mrs. Bates and Mills.

The U.S. Department of Labor wanted jobs for everyone willing to work, regardless of race, age, or other irrelevant considerations. Wall Street, its conscience stirred by the plight of the poor and its operations bogged down by a shortage of manpower, was ready to give the disadvantaged a try. But handling transactions involving other people's money requires special knowledge.

Early Graduation

The Labor Department last year approved a contract allocating $285,000 in Manpower Development and Training Act (MDTA) funds to the Newark Manpower Training Skills Center, just across the Hudson River from Manhattan, to prepare 100 people for work as brokerage clerks. The Association of Stock Exchange Firms, a trade organization, helped plan the program and agreed to arrange employment interviews with New York brokerage firms for all graduates.

Mr. Aun is a member of the Manpower Administration information staff.

The first class of 25 began September 16, 1968, and was scheduled to end April 25. But graduation ceremonies for the 20 who completed the course were held 2 weeks early because everyone eligible had already been hired. Twelve Wall Street area firms employed 17 of the 20 graduates. Of the remaining three, two were unable to pass the required physical exams, and one could not meet bonding requirements even with the help of the Labor Department's bonding program.

One of the best success stories to come out of that first class concerns Herman Neff, who had three handicaps going against him—age, education, and failing eyesight. He started out in 1934, an 18-year-old high school dropout, as a textile machine mechanic. He earned high pay for the next 27 years, in the United States and in Latin America, and invested some of his money in the stock market.

Disaster struck in 1961. A piece of flying metal damaged his right eye, and his vision faded until he was no longer able to work regularly. He knew Wall Street needed people. He thought he could qualify because of his experience as an investor, and because he had a knack for mathematics and clerical work. But the brokers were looking for people under 35 and he was turned away repeatedly.

Today he is a margin clerk at H. Hentz & Co. His two children, both college graduates, are proud of their dad. So are his bosses, Stuart Levine and Nat Sellin, comanagers of Hentz's margin department, who praise Neff's work performance and the program that trained him.

Employers Pleased

All the brokers seem pleased with their new employees. Henry Majewski, supervisor in Brown Brothers Harriman & Company's dividend department, gives Mills high marks. "All reports indicate he's great," he said. "He's fitting in very well. His immediate supervisor thinks a lot of him."

Carolyn Crockett, a 20-year-old Negro, has also made a good impression at the A. G. Becker firm. "We're satisfied with her work," said Becker personnel executive James Tumulty. "She fits in well with our other employees. It's our impression she's happy and everything is working out smoothly."

Miss Crockett, for her part, is delighted with her new position in Becker's purchasing and sales department, though her company, like all Wall Street firms, has more work than it can handle easily.

"I like my job here," she said. "I'm a little snowed under, but I like it. We're darn busy here, and it's good pay."

She grossed $69 a week on her last job. At Becker's, her regular salary is $100, and her total earnings, with overtime, have been coming to $230 every 2 weeks. "I want to have money in the bank and some clothes," she said. "And I'm doing it now. It's shocking the way I can put money away now. I'd never been able to save before."

The investment community in lower Manhattan could use 5,000 to 6,000 more employees like Miss Crockett right now, according to Leon T. Kendall, President of the Association of Stock Exchange Firms. He points out that the Exchange community's work force totaled 120,000 people at the end of 1967, double that of 1956. But during those 11 years, the share volume of trading increased almost five times, while the back office force, which handles the increased flood of paperwork, rose less than 100 percent. The major exchanges for some time now have been closing 1 day a week to permit the back office force to keep up with trading volume.

"We're in great need of the resources of the Newark labor market," Kendall said. Only 13 percent of the Wall Street area work force lives in Manhattan, he noted, while 10 percent are New Jersey residents. The New Jersey share will increase markedly in the years immediately ahead, according to his calculations. And he predicts that Puerto Rican and black people will make up "50 percent of our labor force within 10 years."

"The tremendous growth of the stock exchange community has caused all of the member firms to reassess their future needs," Kendall said. "The one that concerns me most, as head of a trade organization for the industry, is the need for qualified trained personnel to do the work required to serve the investing public. Every time we add a new salesman in Denver or Phoenix, we must add one to one and a half people in our central downtown New York headquarters to service those sales."

People hired to do this work "historically have come from labor markets readily accessible to downtown New York," he said. Nearby New Jersey "is an obvious source of such people and the Newark program represents our commitment to do everything necessary to employ what these markets have available."

Kendall's organization is backing three other recruiting and training projects for member firms. Two of these prepare people for jobs as beginning cage clerks. The third grooms New York City high school dropouts for entry-level jobs on Wall Street. Forty member firms are cooperating in the New York effort and about 100 trainees are currently participating. But none of the three are as comprehensive and thorough as the Newark program.

The participants attend the Newark Skills Center, located in the city's old State Teachers College, for 30 weeks and spend a total of 1,050 hours in class. The Association of Stock Exchange Firms helped design the curriculum.

Dissecting Wall Street

After an orientation about the center and what it has to offer, the trainees (another class of 25 is now in school) are given an introduction to Wall Street. They learn its psychology, the comparative advantages of large and small brokerage houses, and the nature of the work.

From here they move into a series of exercises that teaches them the American system of business. They learn the difference between corporations, partnerships, and proprietorships. They form a corporation of their own, elect officers and directors, and, to finance it, "go public." They learn to issue common and preferred stock and to raise money through bonds and debentures.

Next they zero in on Wall Street again, and study the history and functions of the New York Stock Exchange. After instruction in the role of the Securities and Exchange Act and the Securities and Exchange Commission, they move into the nuts and bolts of how buying and selling are done in the market. They also learn about other major exchanges—the American Stock Exchange, and the over-the-counter, regional, local, and foreign stock

WALL STREET *continued*

markets. Field trips to the two major exchanges demonstrate the relevancy of their classroom lessons.

They learn how to buy and sell by practicing it themselves under simulated conditions. The center has its own ticker tape machine and a televised quote board that brings in the latest New York Stock Exchange prices. A switchboard and a series of phones enable the students to act as order givers and takers. The aim is to duplicate the "real Wall Street atmosphere," according to George Quarles, director of the Newark center.

Finally, the students move into training as brokerage clerks in six specialties: Order processor, purchase and sales recordkeeper, margin recordkeeper, securities processor, stock records specialist, and dividend specialist. When they complete the course, they are skilled in all six.

Meanwhile, they are taking basic education related to their new careers. The major subjects are math, English, handwriting, and how to read the financial page security prices. They are familiarized with the effect of political developments on the market. They learn economics and the technical side of market transactions (odd lots, bookkeeping, taxes, buying on margin, selling short, etc.).

Each class has two instructors, one for vocational training and the other for basic education. Basic and remedial education is dovetailed into the technical training. Combining the two is regarded as absolutely essential by Frank Lander, daytime supervisor of the vocational instructors. "Learning in the abstract is hard—math for instance," he said. "But if you apply it as a tool in an occupation—to fix a TV or to translate stock orders—then it's easy to learn."

"The 3 R's have to be related to the skill," said Quarles. "You can't undersand the stock market, for example, without knowing fractions."

Closely relating the two types of training is standard practice for all trades taught at the Newark center, and it apparently is effective. Eight members of the first brokerage class lacked a high school diploma. At graduation time, seven of them had earned high school equivalency certificates.

(Though 17 members of the first class had high school diplomas, not one was performing at the 12th grade level in reading or math upon entering the course. More than half were reading below the ninth grade level. Only two scored above the ninth grade in math.)

"We really had not expected the kind of success we had," said Quarles. "The Association (of Stock Exchange Firms) said, 'If you can get half of them through, we'd be happy.' Our rate was 80 percent."

Five of the original 25 students were given no chance to succeed by their instructors after a trial run and were transferred to other classes. The Newark Manpower Skills Training Center grooms people aged 16 and up in 23 occupations, including jewelry assembler, auto mechanic, appliance repairman, and licensed practical nurse. Ninety percent of its funds come from the Manpower Development and Training Act and the rest from local sources. Training periods vary from 9 to 48 weeks. Trainees are paid $41 a week plus $5 for each dependent. The maximum is $70 a week.

Age is no barrier. The first class of brokerage trainees ranged from 19 to 56 years old. Seven were over 40, and all but one of these completed the course. The trainees were given counseling by a staff of eight professionals headed by a psychologist who services the entire center. Special tutoring labs helped the slower ones keep up in class.

Quarles feels that too much emphasis is placed on credentials and too little attention is given to intangibles such as motivation. "Most Americans tend to believe if you're not literate, you're unintelligent," he said. "That's not true. Degrees are not always necessary. Experience and native ability count, too."

Mrs. Bates is a good example of how far motivation can carry a person lacking academic credentials. When she heard about the program last year, she rushed to the State employment service, which was doing the recruiting, and asked to be admitted. She was turned down. But she was determined. The glamour of a Wall Street job was irresistible. She went to the Newark training center without an appointment and waited 3 hours for Quarles who was away on business.

Carolyn Crockett jots down some information from James Tumulty, a personnel executive in the stock firm where she works.

Two graduates of the brokerage clerk course, Boffie Washington (left), and Dorothy Strickland (second from left), review customer transactions in the records office of a Wall Street investment house.

A year ago John F. Roach, 37, was a laborer who did not know what buying stock on margin meant. Now he keeps tab on such transactions for a Wall Street broker.

In the simulated stock transactions at the Newark Training Center each desk represents a separate operation in the processing of stock at a typical brokerage house.

A great deal of stock market information is exchanged by teletype. Trainee Edgar Franklin gets some pointers on teletype operation at the Newark Training Center from instructors George Hassell and Manny Storch.

He listened to her plea for a chance, called the employment service, and had the ruling reversed. Despite her low test scores, she turned out to be one of the best students in the class and passed with high marks. She broke down and cried the night of graduation.

"She was convinced she'd been turned down for the program originally because of her race and her personal appearance," said Quarles.

Another graduate who demonstrated great determination is Mrs. Dorothy Strickland, 39, a clerk in the purchasing and sales department at Bache and Co. A grandmother, she had been unemployed for 3 years when she heard about the course. Despite low test scores in math and reading, she was accepted immediately. It was the first time she had set foot in a classroom for 22 years.

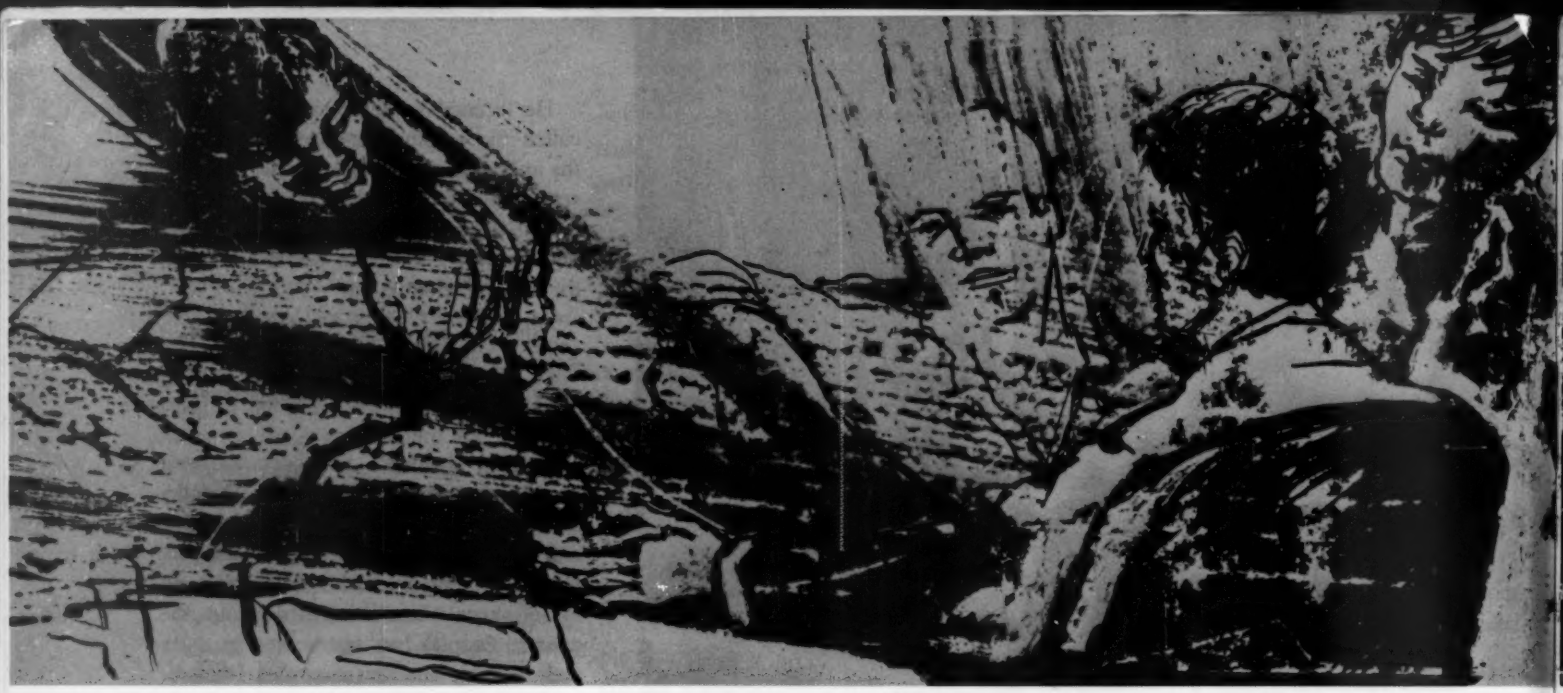
"It was very interesting, fascinating," she said. "Learning about the stock exchange, that wasn't too hard. But going for that high school equivalency was rough."

Rough or not, she made it. "It surprised me. I went home with a headache many a day but I came back the next day. Why? I enjoyed it. There was something interesting to learn everyday. It was a challenge to me after being out of school so long."

She has seven children, aged 12 through 21, and five are still at home. She is the head of the household. She lives in Newark and commutes to New York. "I like the job," she said. "I can make overtime every night but I got a family to raise."

Quarles believes that families of people like Mrs. Strickland will reap important intangible benefits from the program, as well as the obvious financial boost.

"Our graduates are a drop in the bucket," he said, "but we are taking people who never knew what Wall Street was—who thought the Dow-Jones average referred to baseball—and we're giving them a new image of themselves. Think of the impact on their families and children. Take a lady who never earned over $65 or $70 a week in a factory. Now she's on the Street in a new environment, with a new image of herself. She passes on this new image to her children, friends, relatives, and neighbors."



'Considerable time is wasted while youngsters flounder in school and in the

VOCATIONAL GUIDANCE:

By Howard Rosen

More than 550,000 young men entered the labor force in 1966 as high school graduates who were not going on to college, or dropouts who failed to complete their education. Some of them had a pretty good idea where they were going. The 130,000 graduates of vocational, agricultural, technical, and industry courses who were available for placement and the 54,000 more mature young men who had completed apprenticeships were on a directed path to employment. But most of the balance of these young men entered the labor force without special training or knowledge about the world of work.

Taking into account the graduates of technical institutes and junior colleges, probably well over 300,000 young men poured into the Nation's labor force in 1966 with little training for employment and badly in need of vocational guidance. This helps explain why the unemployment rate in 1966 for young men 18 and 19 years of age was 10.2 percent while the rate for all males was 3.2 percent.

We wring our hands about the high unemployment rates of teenagers, knowing full well that regular high schools and vocational schools are not set up to prepare a large percentage of new entrants to the labor force for the world of work. Many vocational schools are "dumping grounds" for youth who cannot be educated by regular schools. As a result, the many vocational schools that try to do a professional job are faced with the insurmountable task of serving two masters at once.

Good vocational schools are capable of making an important contribution to developing the supply of our skilled workers. However, they can carry out this function effectively only if they are permitted to send to other schools those students who need special treatment and training. Some youngsters vocational schools are expected to teach need remedial education if they are to reap any benefit from training, and many of these students should be given only limited training. Students who cannot absorb the full range of training should be taught basic skills that will make them employable and should be given the kind of orientation that will enable them to respond to the discipline required in an industrial society.

A number of research studies supported by the Manpower Administration have shown that vocationally oriented students do not receive adequate guidance. Two researchers at Northeastern University in Boston, doing a study on how 400 tool and die makers learned their trade, have discovered that students with vocational inclinations often get little or no occupational guidance at times when they have important decisions to make on educational programs. From their interviews with tool and die makers and with students now in vocational schools, the researchers found that counselors in nonvocational schools tend to run down vocational education. Considerable time is wasted while youngsters flounder in school and in the labor market because of lack of sufficient occupational guidance and counseling.

The researchers stress that if youth are to be trained for occupations that offer good job opportunities they need better guidance at the junior high school level by counselors knowledgeable about the labor market and sympathetic to youngsters without high academic aspirations. The tool and die makers commented that the schools failed to tell them when they were youngsters that tool and die making was a rapidly expanding trade with high wages and interesting work.

Present-day students and recent graduates of vocational schools, interviewed in the Northeastern study indicated counseling in the vocational schools themselves is sporadic, passive, and directed toward immediate problems. Too often

Mr. Rosen is director of the Manpower Administration's Office of Manpower Research.

labor market because of lack of sufficient occupational guidance and counseling.'

Room for Improvement

counseling is job-oriented, not career-oriented. The longrun is not discussed and students are not exposed to a full exploration of a variety of job possibilities, career ladders, and the advantages and disadvantages of these jobs. The youngsters indicated they did not learn about earnings or working conditions from their vocational school counselors.

Many recent vocational school graduates do not depend upon school placement services but seek jobs on their own. School facilities often are used only as a last resort. Except for those schools which run cooperative work-study programs, there apparently is no systematic administrative arrangement whereby schools follow the work careers of their former students.

A research study of the shortage of skilled workers in Chicago and St. Louis showed that ". . . almost 60 percent of the tool and die makers participating in the study . . . had received no counseling." They had obtained information on their own initiative or had, by accident, found out about the trade. Very few of the school officials interviewed in Chicago and St. Louis felt that counseling in nonvocational high schools was adequate. They complained that counselors were poorly qualified, knew little about the skilled occupations, and placed too much emphasis on college careers.

In looking at what workers, educators, and counselors knew about employment opportunities in skilled and technical shortage occupations, it became apparent to the researchers who did the Chicago-St. Louis study that there is great need for the development of more adequate occupational information at the local level. They emphasized that this information must be disseminated more effectively in the local labor market to employers, workers, the unemployed, students, and vocational and other educational planners. Youngsters who are going through the process of choosing an occupation are in particular need of information that will help them select school courses realistically related to their vocational goals.

In its 1968 General Report, the Advisory Council on Vocational Education said that only about 50 percent of American high schools provide any form of vocational guidance during a large part of a student's educational career. Work experience was identified as extremely important to vocationally oriented youth.

The council stated, "There is too much guidance of a clerical type, an information giving and receiving process with little concern or knowledge of the demands of occupations and the world of work."

In a recent study done for the Department of Health, Education, and Welfare of the potentials of vocational education, Professors Jacob J. Kaufman and Morgan V. Lewis of the Pennsylvania State University found two major weaknesses of vocational guidance and counseling in the vocational schools they reviewed. First, the counselors were poorly prepared in vocational areas, and second, ratios of students to counselors were too high. The counselors were well prepared in guidance and guidance techniques but did not have the special preparation and knowledge of the nature of blue-collar jobs necessary for vocational counseling.

Although most vocational education graduates in the Kaufman-Lewis study who recalled receiving counseling appeared to be satisfied with the guidance they received, about half reported they had no discussions about course choices with a counselor and more than three-fourths indicated they never discussed their job plans.

The Penn State researchers believe that youngsters with disadvantaged backgrounds are entering our schools without basic orientations toward work—orientations that have been assumed to be there in the past. Thus, schools are being asked

VOCATIONAL GUIDANCE *continued*

to give those students training in vocational values and work habits that have previously been provided in the home. Unless schools develop new techniques and methods they will not be able to carry out this assignment.

The researchers recommended a more comprehensive concept of guidance. They called for vocational development to begin in elementary school. As they progress in school, students should not only be briefed on various occupations, but also should be trained in decisionmaking and given the opportunity to explore many job possibilities while keeping open options for future choice, Professors Kaufman and Lewis contend.

The problem of counseling rural youth is further compounded because so many of them are trained in an environment which they eventually leave when they move to the cities. In many instances noncollege-bound youngsters in rural schools do not receive much in the way of counseling services. Many rural youth who move to cities do not know about the placement services offered by local employment service offices.

Recent research studies and reports can be summarized into a number of recommendations to make vocational counseling more useful and more relevant to the job market as it exists today and is likely to exist in the near future:

- Those concerned with providing vocational guidance for noncollege-bound youngsters should be aware of the employment opportunities available in the skilled trades. Counselors should learn about the number of job opportunities in the skilled occupations, their pay and working conditions, and, above all, the variety of training paths available for entering craft jobs.
- Counselors must be able to convey to vocationally oriented students not only the variety of paths open to them, but must also get students to realize that some of these paths can be followed even if they fail in school, drop out of school, or are blocked from entering formal training by discrimination or unrealistic hiring standards. School dropouts with mechanical aptitude have been able to learn the exacting requirements of some of the most skilled jobs. They have been able to acquire the mathematical knowledge and have demonstrated their ability to conceptualize and think logically in performing their jobs. Some employers are now willing to forget about credentials if the job applicant demonstrates aptitude and desire to learn a trade. Although formal training may be the most efficient way to learn a trade, the "pick-up" method has been used effectively by a significant proportion of the skilled labor force.
- Vocationally oriented youngsters need the same kind of career counseling as college-bound students. Emphasis on job placement alone, rather than consideration of the career, can result in floundering and detours which may affect earnings and eventual success. This calls for a thorough knowledge by counselors of career and mobility patterns in craft jobs.
- Better local, as well as national, labor market information must be provided in a systematic fashion to counselors, students, employers, educators, and parents. Better ways of disseminating this information must be devised if it is to help those who are making decisions about careers and educational planning.
- Vocational guidance should be introduced early in the school curriculum for vocationally oriented youngsters. It should be offered on a continuing basis throughout the educational process.
- More work-study opportunities should be available to vocationally oriented young men. They should be exposed to a variety of work experiences and be permitted to explore a wide range of occupations.

News & Notes

The new Manpower Administrator and Deputy Assistant Secretary of Labor for Manpower is Malcolm R. Lovell, Jr., 48, who had been serving since January as Executive Assistant for Manpower with the Urban Coalition. He succeeds J. Nicholas Peet, who resigned to take a newly created post in his home State of Oregon as director of the Social Services Department. Lovell was director of Michigan's Employment Security Commission from July 1965 to January 1969. In his new post, reporting to Arnold Weber, Assistant Secretary of Labor for Manpower, Lovell is the principal operating administrator for the full range of U.S. manpower programs. A native of Greenwich, Conn., he received his master's degree in business administration from the Harvard University School of Business. He served as chairman of the Michigan Economic Opportunity Office and chairman of the State Labor Mediation Board. He is former manager of Employees Services for American Motors and served on its National Labor Bargaining Committee.

* * *

The Department of Labor is experimenting with a simple incentive system to upgrade the skills and wages of 500 low-income workers in New York. The 24 employers in the program will have complete freedom in training their employees over a 3-year period. The Government will pick up part of the tab. The test for payment to the company is simply whether the employee's income has in fact been raised. There is no other requirement.

* * *

Layoffs need no longer interrupt apprenticeship training in much of the steel industry. If the apprentice has completed 25 percent of his training, he can continue his apprenticeship term during layoffs under the latest collective bargaining agreement between the United Steelworkers of America and U.S. Steel. "Such procedures, if adopted widely, could help reduce the general 50 percent cancellation rate experienced in the apprenticeship system," said Secretary of Labor George P. Shultz.

Gwendolyn D. Leach has become the first Negro woman apprentice in North Carolina. Miss Leach, 19, of suburban Raleigh, is enrolled in a 4-year training program as a dental laboratory technician.

* * *

Engineers born and educated abroad have become an important source of America's technical manpower supply. A report by the Engineers Joint Council shows that immigrants provided about 15 percent of the total input of new engineers into the national manpower pool in 1957-67.

* * *

The Work Incentive Program moved 50,000 welfare recipients into jobs or training programs in the 6 months ending June 6, 1969.

* * *

Plans for Progress has been merged into the National Alliance of Businessmen (NAB). President Nixon said the merger "will permit some of the Nation's most publicly spirited companies to combine their efforts so that there is a single thrust and focus—total employment and advancement opportunities—throughout every level of industry for members of minority groups and the hard-core unemployed." Plans for Progress, formed in 1961, sought to foster voluntary adoption by American business of plans to hire some more minority group members and upgrade their skills. The NAB seeks to find jobs for 600,000 hard-core unemployed by June 1971. Donald Kendall continues as NAB chairman. Roger Lewis, who had been chairman of Plans for Progress, has become NAB vice chairman.

* * *

When peace comes, will defense workers be out on the street? A study made for the U.S. Arms Control and Disarmament Agency of 35 defense job skills shows that most of them can be transferred to nondefense industries. The evaluation was made by the California Department of Employment, with help from the U.S. Training and Employment Service.

A Special Ring of Truth

By Ernie Hood

There are five assistant parole officers in Seattle whose words carry a special ring of truth when they tell a troubled parolee, "I understand your problem." All five are convicted felons who for the past 8 months have been carving out new lives for themselves under the U. S. Department of Labor's New Careers Program. Three of the five are still on parole.

"They're good," says Bill Wienke, their immediate supervisor. "They can break through the walls of silence that other parole officers can't. They've saved a number of parolees from returning to prison. They regard themselves as being on duty 24 hours a day."

One of the New Careerists is a young woman, Joyce Gallante, 23. She served 12 months on a grand larceny charge. The others are:

—Dave Grant, 23, who was convicted of aiding and abetting a felony, and whose case is now on appeal.

—Leydell Baker, 24, who served 2 years for burglary and is now off parole.

—Larry Brooks, 29, who spent 19 months in the State reformatory for burglary and parole violation.

—William Hosea, Jr., 27, who served 23 months for robbery.

They do not mind being publicly identified. "The more people who know me, the better contacts I have to reach and help those I want to help," said Brooks.

All five are black. They help service about 400 active parole cases in Seattle's dismal central area.

Anthony Baker, district supervisor for the State Division of Probation and Parole, regards the program as "a social contract with mutual responsibility." He believes the Seattle central area, with its large Negro population, is being penetrated for the first time by the parole agency.

When given the opportunity, Mrs. Gallante, Grant, Baker, Brooks, and Hosea found within themselves untapped reservoirs of willpower and determination. These are the characteristics they try to bring out in the parolees with whom they work.

"I try to get my people to think, to really see the consequences of everything they do," said Joyce Gallante. "Some have to learn the hard way. I don't want to see them go back to prison. I've been there. That's why I've done a great deal of thinking myself."

Mrs. Gallante has another powerful motivator which impelled her to make an all-out effort to change the direction of her life—two children. Her younger child was born while she was in the women's quarters of the State penitentiary on the grand larceny conviction.

Family responsibilities are also a spur for Brooks. He has a wife and two children. He is not bitter about the past. On the contrary, he is doing everything possible to make sure it does not repeat itself. He quit a better paying job to make a fresh start in New Careers.

The five trainees interview parolees, do preparole and job placement investigations, compile progress reports, and assist in investigating parole violations. They cannot make arrests, but they can and do make recommendations that result in sending parolees back to prison. They are reluctant to send a man back to prison, but they recognize there is a limit to the time and energy they can devote to a single case.

"The one thing they cannot stand is for someone to break his word," said Wienke. "They're willing to go along, but if you break your word twice, that's it."

"I'm gonna save my time for the people who really need it," is the way Brooks puts it.

Brooks is particularly pleased with having helped a 31-year-old robbery parolee known as the St. Louis kid—"a guy who likes to doll up in fancy clothes, run around with the girls and gamble. I knew I had a problem to start with because the money had to come from some place. He was winning some at gambling. And the girls were helping him too. But his luck couldn't hold and he knew it.

"I talked with him here in the office and in the street too and I finally got him to coming out to my pad at night. One evening he was all dressed up and I asked him kind of contemptuously to look at himself in the mirror. He seemed to get the point and from then on I was out in front all the way.

"He'd taken welder training in prison so I helped him land a job. He's earning $170 a week now with promises of advancement. He still likes to dress nice. But his $200 suits are paid for and he admits he feels more comfortable in them. It looks like he's got it made."

Hosea had the satisfaction of rehabilitating a childhood acquaintance. "I grew up with this guy right in the central area," he recalls. "He was mad at the world—battled everybody. I guess it was just in the cards that he went over on an

Mr. Hood is a Department of Labor information officer in Seattle.

Larry Brooks (left) and Joyce Gallante check with parolee Louis Ray Garner on a Seattle street.

A Special Ring of Truth

continued

auto theft rap because he was in trouble all the time. He was still mad when he came in to report on parole and found me here. He was leery of authority, but I finally convinced him to take some vocational and educational training through a manpower program.

"I took him down to a laundry and he got a job as a steam press man. Then through a longshoreman friend I learned of a better job in a warehouse. He went down to see them himself and landed a job.

"Now he's being trained as a warehouseman-dispatcher. He works steady and still finds time to help other parolees in our group therapy meetings. He helped one guy get a job with the warehouse company. You gotta give him credit. He was one of 11 kids and only two of them are 'clean.'"

The chances for failure when working with parolees are great. "The old bunch is waiting to welcome them back," said Wienke. "The old temptations are still there. Forty dollars doesn't last long." (Departing prisoners are paid that amount by the State.)

Job placement is especially difficult. Most ex-convicts are unskilled. Even if they have a trade employers hesitate to take a chance on them. But the five New Careerists are given high marks by Wienke. Hosea has been particularly effective in rounding up jobs. A former pipefitter, he uses his wide acquaintanceship in business, industry, and organized labor to find work for parolees.

The performance of the New Careerists has won them the respect of their colleagues as well as their superiors. Richard Hooper, one of the regular parole officers who "works the streets" with the trainees, freely admits they are more effective than more experienced professionals in certain situations.

"One of the most difficult assignments in parole work is to reach parolees who have failed to report for a month or two," he said. "They think they face an immediate return to the institutions and are running scared in their attempt to drop out of sight. Our aim is to contact them, get them back on a current report basis, and set them right.

"By reason of their own backgrounds, these trainees are trusted. I know of three parolees who came in voluntarily because they believed William Hosea, where they wouldn't believe us. As far as we were concerned, they scurried out of sight like a bunch of frightened rabbits."

Hooper believes the five trainees are reaching for something beyond helping those on parole and making new careers for themselves. He thinks they view their work as an opportunity to stimulate and contribute to improvements in the entire correctional and rehabilitation process. "They apparently are prepared to devote the remainder of their lives to that cause," he said.

Hooper points out that Hosea, for instance, "could earn considerably more money as a pipefitter. His motivation is something else. He's told me he wants to 'change things so everyone has a chance to change.'"

Dave Grant (left), William Hosea, Jr. (second from right), and Lydell Baker (right) engage in a sidewalk discussion on their parole officer training with Lewis Moore, an interested citizen. The trainees feel that the more people who know about and understand what they are doing, the more successful they will be.

The New Careerists work 3 days a week, interviewing and counseling parolees. They attend college-level classes 2 days a week. A built in "career ladder" is a Labor Department requirement for all New Careers projects. Trainees are given increasing responsibility and an added caseload as they move up the ladder. Their starting pay is $359 a month. They will receive merit increases at the end of their first and second years.

Labor Department money pays their full salaries and training cost the first year, and part of their salaries and all training costs the second year. At the end of that time, the State of Washington is obligated by its New Careers contract to keep those who perform satisfactorily on the payroll —at the same pay or higher—until they become full-fledged parole officers.

They are now on the second step of the ladder following an initial 6 months' indoctrination. They will become eligible for the State examination for appointment as parole officers after earning a bachelor's degree.

Their classwork in Bellevue Community College covers social science, psychology, sociology, English, and other subject matter similar to that in the course offered for State welfare caseworkers. Baker reports that all five are getting better-than-average grades.

The trainees started their new jobs by working with just a few parole cases, under the supervision of other professionals. Now they are on their own and are handling up to 20 cases each in addition to their academic work.

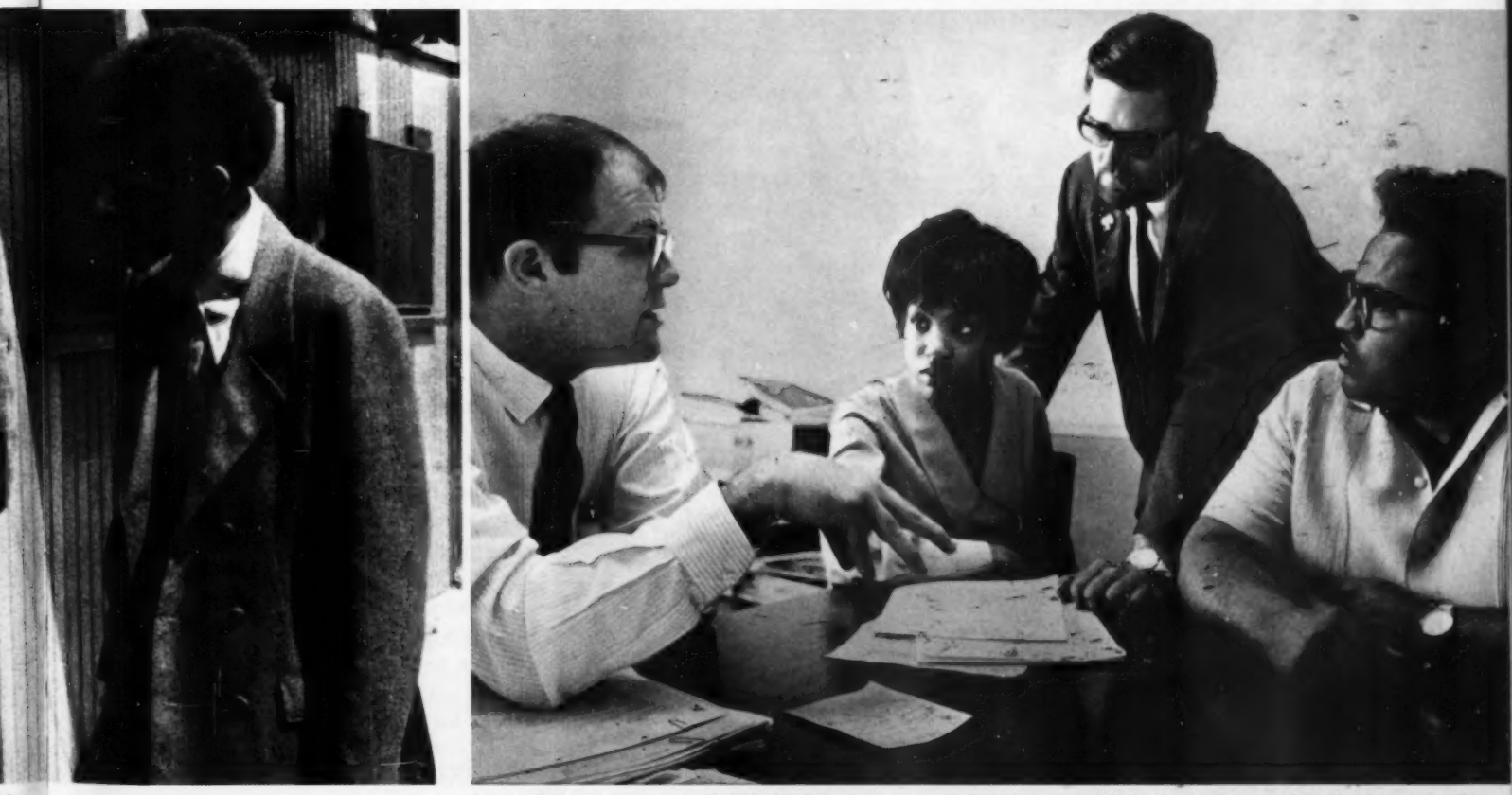
Not everything has gone smoothly with the project. It started with seven convicted felons. Two dropped out and were later arrested for new crimes.

The surviving New Careerists are as frank in discussing their failures as their successes. Hosea says, "You just can't get to some parolees.

"This boy is 23, did time on burglary, and has already flunked out once on parole. I found him a good job, but he quit after 3 days and moved in with one of the old bunch. I counseled him against it but he's living off the girls now. I see big troubles ahead: gambling and prostitution now, worse to come. He thinks he's too smart to get caught. But I know better. I've already put it all down in his report. You can talk to a man just so long, and if he won't listen then you move on to those who will. Time is just too precious to waste."

Brooks' biggest disappointment was a 24-year-old robber "who had already taken three falls, two on parole violations." The man had been in trouble ever since he was 8 years old and Brooks developed a deep personal interest in his rehabilitation.

"The kid had been through the complete route—crime, dope, alcohol, women, you name it. But he's smart, too, has a high school diploma. I got him enrolled in a University of Washington special study program, 'Psychology and Modern Interpretation.' Just when I thought I had him psychoanalyzed, he tried to pass a bum check. He tried to eat the check when they grabbed him, only he ate the wrong end, the one without his signature. He's back doing time now."



Joyce Gallante and Larry Brooks (right) discuss some of their cases with Anthony Baker (left), district supervisor of the Washington State Division of Probation and Parole, and Bill Wienke, a regular Parole Officer and their immediate supervisor.

day care small fry pose big problem

By GLORIA STEVENSON

She was raising her five children alone. She had no job skills and only a ninth grade education. To get herself off welfare, she enrolled last year in a clerk-typist training course run by the District of Columbia Concentrated Employment Program. During this time, she earned $30 a week, $18 of which went to a baby-sitter who cared for her two preschool-age children.

Today she earns $4,360 a year in an office job and is sending her two youngest children to a day-care center sponsored by her employer. The cost to her is $3 a week for each child.

Mrs. Stevenson is a member of the Labor Department information staff.

A second mother has been a secretary-stenographer for the same employer since 1963. Recently, she had to take several months off because she could not find a babysitter for her 3-year-old son. "Finding someone reliable is very hard, and very, very expensive," she said.

Meanwhile, her family lost several paychecks while her office lost the talents of a good worker. "She had been here for a long time and she knew where things were better than anybody else," her supervisor said. "I'm not exaggerating when I say her services were needed desperately." Today, her son is enrolled in the day-care center, she is at work again, and her office is back to its old efficiency level.

Both of these mothers work in Washington, D. C., for the U.S. Department of Labor, which sponsors the day-care center their children attend. The center makes it possible for the two women to hold jobs. It also is shedding some light on the problem that almost made it impossible for them to work—a problem familiar to millions of other working mothers and would-be working mothers.

Three Questions Posed

The Labor Department day-care center, the first established by a Federal agency for children of its employees, is a 2-year experimental and demonstration program. Its primary purpose is to explore the feasibility and value of employer-sponsored day-care facilities.

Specifically, the program seeks answers to these questions:

- Will an employer-sponsored center aid in recruiting employees from inner-city poverty areas?
- Can such centers reduce employee absenteeism and other problems resulting from inadequate child care?
- What impact will such a center have on the development of the children attending?

The answers will have national implications. A Bureau of Labor Statistics survey shows that in March 1967, the latest date for which figures are available, over 10 million mothers were working and 4.1 million of them had children younger than 6. Yet, a year ago, the Children's Bureau of the U.S. Department of Health, Education, and Welfare estimated that licensed day care in homes and centers was available for only about 530,000 youngsters.

Day care is an essential element in the Work Incentive Program, which seeks to move welfare recipients into jobs or skill training. Without low-cost day care, many mothers on welfare may find it impossible to take advantage of job or training opportunities.

Hopefully, the lessons learned in the establishment and operation of the Labor Department's experimental day-care center will serve as guidelines for other employers who may want to consider setting up their own facilities.

Hospitals Most Active

While day care may be sought for other reasons—a mother may be too ill to care for her children, for example—the majority of children who need this service are those of working mothers. But relatively few employers have developed child-care facilities.

According to the Women's Bureau, hospitals have been leaders in day care, setting up some 100 centers. Several shopping centers have set up facilities, as have various universities and private companies. The Amalgamated Clothing Workers of America and management in the men's clothing industry have opened one center in Verona, Va., are constructing centers in Baltimore, Md., and Chambersburg, Pa., and are planning several others in Pennsylvania and the Midwest. Another facility has been opened for children of employees at the Plant Industry Station of the Department of Agriculture's Agricultural Research Center in Beltsville, Md.

The Labor Department's day-care center opened in October 1968 and is located just a few blocks from the Department's main office building in Washington. It is open Monday through Friday from 7:45 a.m. to 5:45 p.m. Parents drop their children off before going to work in the morning and pick them up at the end of the workday. Operated by the National Capital Area Child Day Care Association under contract with the Department, the center is directed by Ann Adams, a former Head Start teacher, with two teachers and several aids. A social worker, psychiatrist, and nurse visit the center regularly.

As Mrs. Adams explains, "This is an educational as well as a custodial program. We try to stimulate the all-round development of the children. We have activities to help foster their intellectual, emotional, physical, and social growth." Music, science, language training, and indoor and outdoor play are regular activities. The children take occasional field trips to monuments and museums in the District of Columbia, and they have also been treated to a train ride—a first for most of them.

Educational activities have been made part of the program as an example of what would ideally be included in a top-quality facility. Officials connected with the center point out, however, that educational activities are not mandatory in day-care programs.

Parent Interest Stressed

Parents are encouraged to work closely with the teachers and the social worker affiliated with the center. They are expected to eat lunch with their children at the center and chat with the teacher once a month. Parent meetings at which Mrs. Adams or one of the consultants speaks are held monthly. The National Capital Area Child Day Care Association considers these meetings so important that cabfare is provided for parents who would find it a financial hardship to attend.

The center is open to children ages 2½ to 5½. Although only 30 youngsters were enrolled initially, the center's capacity is 60, and enrollment will be expanded during the second year of operation. Nearly half of the children attending now are those of disadvantaged women who could not work unless low-cost child care was available. The rest were selected from among departmental employees at all salary levels whose day-care arrangements were inadequate.

day care continued

The new employees were recruited through the District of Columbia Concentrated Employment Program, Opportunities Industrialization Center, and Work-Training Opportunity Center of the Public Welfare Department. Parents who were already employed in the Department were selected by a special committee composed of representatives of the Department, the union that represents Department employees, and the National Capital Area Child Day Care Association.

Parents pay a sliding fee for the service, ranging from $1 a week for those whose total family income is under $4,000 a year to $25 a week for those making more than $15,000. These funds help defray costs not covered by the Manpower Development and Training Act funds allocated to the program.

First-year costs for the center are averaging about $1,800 per child. This will be reduced by about $200 in the second year when the number of children attending is increased. Much of the center's costs go toward staff salaries, educational material, and consultant fees. Officials connected with the program explain that the center's expenses compare favorably with other child-development day-care centers which are custodial rather than educational.

Although the program's success in relation to its overall objectives is not yet known, most of the parents are quite pleased. One indication of the center's popularity is the turnover rate of less than 20 percent, a figure officials affiliated with the program consider extremely low.

Calvin Shields, supervisor of two Labor Department employees whose children attend the center, has noticed that both mothers are relaxed now because they are confident their children are getting good care. "It has freed their minds to know that their children are well taken care of," he said.

Mothers also report that their children are pleased with the arrangement. Mrs. Jacqueline Davis, a teller in the Department's credit union, says her daughter Cheryl is enthusiastic—possibly too enthusiastic—about the center.

"Cheryl loves the kids and loves the teachers," Mrs. Davis says. "She's proud of the things she makes and paints. In fact, I think Cheryl might like the center too much. She never wants to leave. She fights me every afternoon when I go to pick her up."

Most parents say their children are improving their language skills and broadening their horizons of knowledge through the program. Ernest Dixon, one of the three male employees whose children are currently enrolled, talks about his daughter Kimmie's progress:

"There's no question that she's learning a lot at the center. She speaks better, and she's more aware of things around her. With the babysitter we had before, she was taken care of—period. Now she's learning."

The most pressing problem parents have experienced to date has been transportation — either bringing the children from home to the center or getting themselves from the center to work on time. Transportation arrangements have been especially troublesome for employees who do not work at the Department's main office building, but at one of its other buildings around the city.

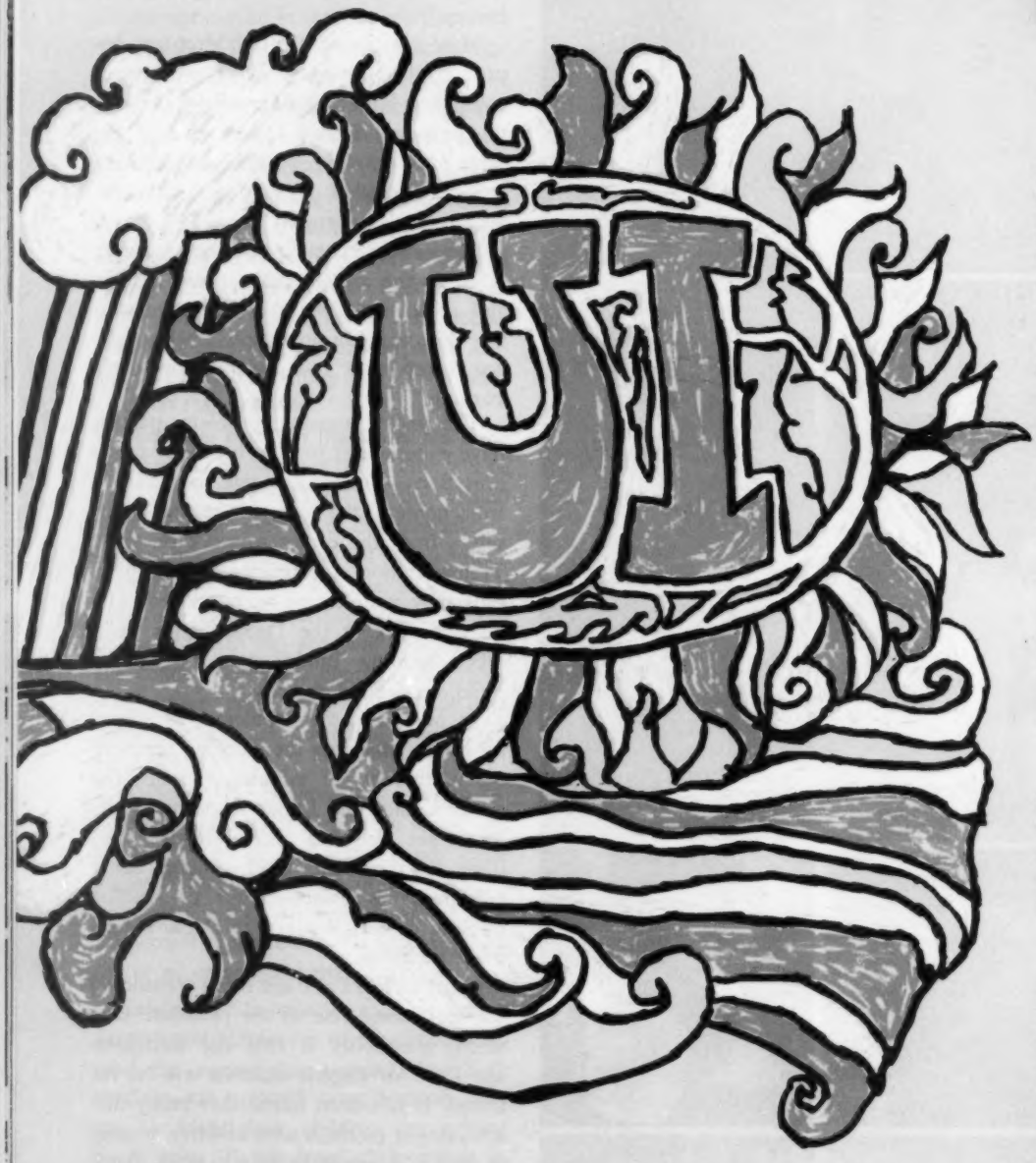
In one case, the problem was solved by simply changing the working hours of the mother by 15 minutes. Parents, the center's staff, and Labor Department officials are weighing other ways of handling the problem. One solution being considered is establishment of smaller satellite centers nearer the Department's other buildings.

Other changes also are being considered for the second year of the program. One strong possibility is that the minimum age limit for eligible children will be reduced. It has been found that many disadvantaged mothers with children younger than 2½ would be able to work if appropriate child care were available.

An intensive, 8-month evaluation of the center's success in meeting its objectives is now underway. If the study shows that such centers are both effective and feasible, it may point the way to the solution of one of the major problems of the workplace and the labor market.

SPECIAL SECTION:

The New Realities of Unemployment Insurance



Objectives for

By RAYMOND MUNTS

Unemployment insurance began in the 1930's and any reappraisal of its objectives has to be made in terms of the economic environment of today. This is a different world than that into which the program was born.

Jobless payments serve several general purposes. They contribute to national economic objectives such as stability and aggregate growth. They are a factor in dealing with structural problems in labor supply and use. And they are a source of income; by assigning social costs to unemployment, the program redistributes income.

How unemployment insurance serves these purposes alters as the Nation's economic picture and objectives change. Three basic changes in the role of unemployment insurance have important policy implications:

- The relative importance of unemployment insurance taxes and benefits in controlling the rate of joblessness has declined. Responsibility for stabilizing the economy now rests primarily with budget, fiscal, and monetary authorities.

- The development of manpower programs establishes new relationships for unemployment payments. Income maintenance objectives of the latter are integrally related to human resource development. Since neither manpower nor unemployment insurance can do the job of the other, both are needed, and neither can be subordinated to the other.

- The rise of anti-poverty objectives suggests that more emphasis should be placed on making unemployment benefits adequate in terms of providing a minimum income on which a family can

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live. This points to expansion of such devices as weighted schedules of benefits and dependents' allowances to assist low income families. There is, then, a two-pronged income goal for jobless benefits: Equity within the concept of wage insurance as an earned right and adequacy in terms of meeting basic needs of a family.

These new objectives have important policy consequences. The challenge of the 1970's is to update and reshape unemployment insurance to reassert its position as the primary system of income maintenance for workers who become unemployed. Related objectives may be assigned to new income maintenance programs which could affect the form of unemployment insurance but not its basic mission.

The wisdom of one epoch often seems naive to the next, and this is true in unemployment insurance. In 1920 Professor John R. Commons told the Wisconsin Federation of Labor that "unemployment insurance would decrease unemployment, stabilize industry, and speed up production."

Actually, this was a powerful argument for the time. There was widespread belief that the inefficiencies of the factory system were the source of all economic problems. By making it economically unattractive for employers to lay off workers, it was thought unemployment insurance would stabilize the work force, thus producing a more efficient factory system and reducing unemployment.

The prevention idea persisted into the depression. Social insurance was regarded as a European idea of a substitute for relief. If it were to serve in this country, it would have to get in step with the prevention concept. Through the 1930's there continued to be considerable confidence in the capacity of businessmen to cope with complex industrial relations. President Roosevelt wanted a plan constructed "in such a way as to afford every practical aid and incentive toward the larger purpose of employment stabilization." The result was an unemployment insurance program designed not only to pay benefits to some unemployed, but also to prod employers to stabilize the work force by varying their unemployment insurance tax on the basis of claims filed by their former employees (experience rating).

The New Economics

Since unemployment insurance began, a whole new body of economic thought has arisen which emphasizes aggregate factors influencing employment. British economist John Maynard Keynes focused attention on the role to be played by the Federal Government in maintaining effective demand for goods and services. Beginning with the Employment Act of 1946, the Nation has undergone a gradual revolution that now assigns responsibility for the vigor of the economy to taxing, spending, and monetary authorities. Since the Government has the responsibility for shaping the Nation's economy, the employer fault idea that underlies experience or merit rating has become an anachronism. The question is no longer whether experience rating is effective, but whether it is even relevant.

Because of the widespread belief that experience rating produces lower tax rates, new rationales have been developed to support it. Experience rating, it is argued, stimulates employer interest in unemployment insurance policy and administration. This interest can be constructive if it enhances the protective and income purposes of the system, but it may also undermine those purposes. In any event, few supporters of experience rating contend any longer that it is an effective device for stabilizing employment.

This does not mean that jobless benefits have no stabilizing role to play. On the contrary, seen from an aggregative point of view, they have a definite stabilizing influence. Depending on cyclical economic conditions, the total amount of benefits paid out can vary by as much as $3 billion from year to year. Although this amount is much smaller than the manageable margin between total government income and expenditures, it is an automatic response to fluctuations in the national economy and it has the additional merit that funds are paid exactly when, where, and as needed by the protected unemployed Unemployment benefits may help to blunt the force of a downturn in the economy once it begins, but they do not begin early enough to be a preventive device. The key to prevention lies in early action by government monetary and spending officials.

Automatic mechanisms that help offset a downturn in the economy will not prevent its occurrence. The key to prevention is taxing, spending, and monetary interventions. The manageable margin between Government expenditures and incomes now dwarfs total jobless payments in any year.

Another aspect of the new environment in which unemployment insurance operates is manpower policy, which did not exist prior to 1960 except in wartime. Manpower policy has pursued various objectives: Creating more job opportunities for the unskilled; raising the income of hard-core disadvantaged workers by upgrading their skills and improving their work habits; reducing structural unemployment and inflationary pressures by retraining programs that increase the number of workers with skills in short supply. The objectives and forms of manpower programs will vary with administrations and economic conditions. But

unemployment insurance and manpower programs must be related because of similarities in their purposes.

In forging this relationship, subordination of either partner must be avoided because their roles are different. Manpower programs are concerned with efficiency in the development, allocation, and use of human resources. Unemployment insurance is concerned with a quality of life, with surcease from the scramble of the labor market. It is an idea based on deep-seated moral premises. Man comprises the work force of society. But he is also the ultimate justification for that society. Therefore the forces of supply and demand by themselves are not permitted to regulate his labor.

It is for these reasons that unemployment benefits should not be discontinued if the jobless worker refuses training opportunities, at least during the normal duration of the benefit period. Otherwise there would be a denial of the worker's earned right to benefits.

On the other hand, the continuation of benefits should not be permitted to obscure a claimant's eventual need for economic rehabilitation. Too frequently basic problems are avoided because expedient though inadequate remedies are at hand. The use of jobless benefits—just because they exist—to fill in the shortcomings of manpower programs which are still in their infancy confuses the rights and incentives of both programs.

When a jobless claimant is going to have to make a serious readjustment to obtain appropriate employment, he should be counseled, tested, and shown the alternatives — including training — that are open to him. In an experimental project in New York State, difficult cases are being identified right away and plans are made to help the claimant make necessary adjustments. Some experts feel it would be better to wait a while, say until the 12th week of unemployment benefits. If nothing is done until the 26th week, this leaves no time in most States for the reappraisal the worker may have to make before his benefits run out. The firm policy should be that any time during the normal duration of benefits, the claimant and not the unemployment insurance authorities should have the right to make the decision about training or relocation.

Because unemployment insurance is a holding operation and benefits cannot be continued indefinitely, a different approach is justified for those unemployed beyond 26 weeks under nonrecession conditions. In such instances the worker's willingness to take active steps toward readjustment would be an appropriate condition for continuation of income support payments.

A number of innovative ideas have focused on new entrants to the labor force. They now are not eligible for unemployment benefits. Underemployment is particularly high among younger persons in minority groups, which is why training programs have been aimed at them. Perhaps unemployment insurance could be fitted in with training programs to provide benefits for those with no previous employment who are genuinely seeking work.

The weight of opinion seems to be against use of the payroll tax to finance manpower services. A progressive tax is better for a program of resource development. Unemployment benefits for new entrants into the labor market also could be financed through general revenues. General revenues already are used to reimburse States for jobless benefits paid to recently discharged veterans who are seeking civilian employment.

Role in Poverty Fight

When the abolition of poverty was made a national goal, the decision was based on the assumption that this is technically possible as well as desirable. But the implications of such a decision have not always been drawn for existing programs and procedures. Ending poverty requires changes in existing programs as well as the launching of new efforts. What are the implications for unemployment insurance?

Jobless payments can help people with very low incomes in only a limited way. One-third of the heads of poor families have had recent work experience, and other family members may also have worked recently, but many of these workers cannot qualify for benefits between jobs. In normal times, only a small fraction of total jobless payments go to poor families.

Does this suggest that unemployment insurance can do little for the poor, or does it suggest that more could be done? The program is essentially social insurance, which means it was developed to fit into the mold of our system of work incentives. Benefits are based on an individual's earnings and work record in a recent period. It is a program that best serves those with firm attachment to the labor force. Can it improve its role for low-paid or intermittent employees without corrupting this basic mission as social insurance? It can, but to show how, certain characteristics of the system as it now operates must be understood.

Reductions Distorted

It is inherent in jobless benefits that there is only partial compensation of wage loss in order that working be more attractive than not working. Under a pure and simple system of wage insurance, benefits would be set at the same fraction of earnings loss for each claimant. But benefits are not always reduced exactly to scale in State programs. There are four important variations from pure and simple wage insurance.

- One type of distortion arises from neglect—the failure of State legislatures to increase maximum weekly benefits in proportion to the rise in wage levels generally. As a result, benefits for middle and higher paid workers in most States do not cover half of their former wages. The main issue at stake in the 1966 consideration of Federal benefit standards was restoring to the great majority of workers the right to a benefit of at least half their own individual weekly earnings.

If maximums were properly pegged, wage insurance would have real vitality. Most workers could expect benefits of half their weekly wage loss. The value of the insurance policy would be related to earnings. The worker would have earned his benefit and know its amount. This is the equity principle in unemployment insurance as it should be. Unfortunately, the principle is often violated.

- The jobless benefit program excludes what tend to be low-paying occupations, such as farm, household, hospital, and local government jobs. This distorts the system significantly by excluding some

workers from protection (a high proportion of whom may be poor or potentially poor) and by lowering benefits for those whose job experience includes both covered and uncovered employment.

- Another departure from pure and simple wage insurance exists in States where benefit schedules are weighted to help those with the smallest earnings. The lowest paid workers in these States are entitled to benefits that are higher than 50 percent of their former wages.
- Eleven States make family size a consideration by giving allowances for dependents to supplement unemployment benefits.

Of these four variations, low maximums and spotty coverage are undesirable. They constitute failures to achieve the equity principle that jobless workers should receive benefits related to the wages they have earned.

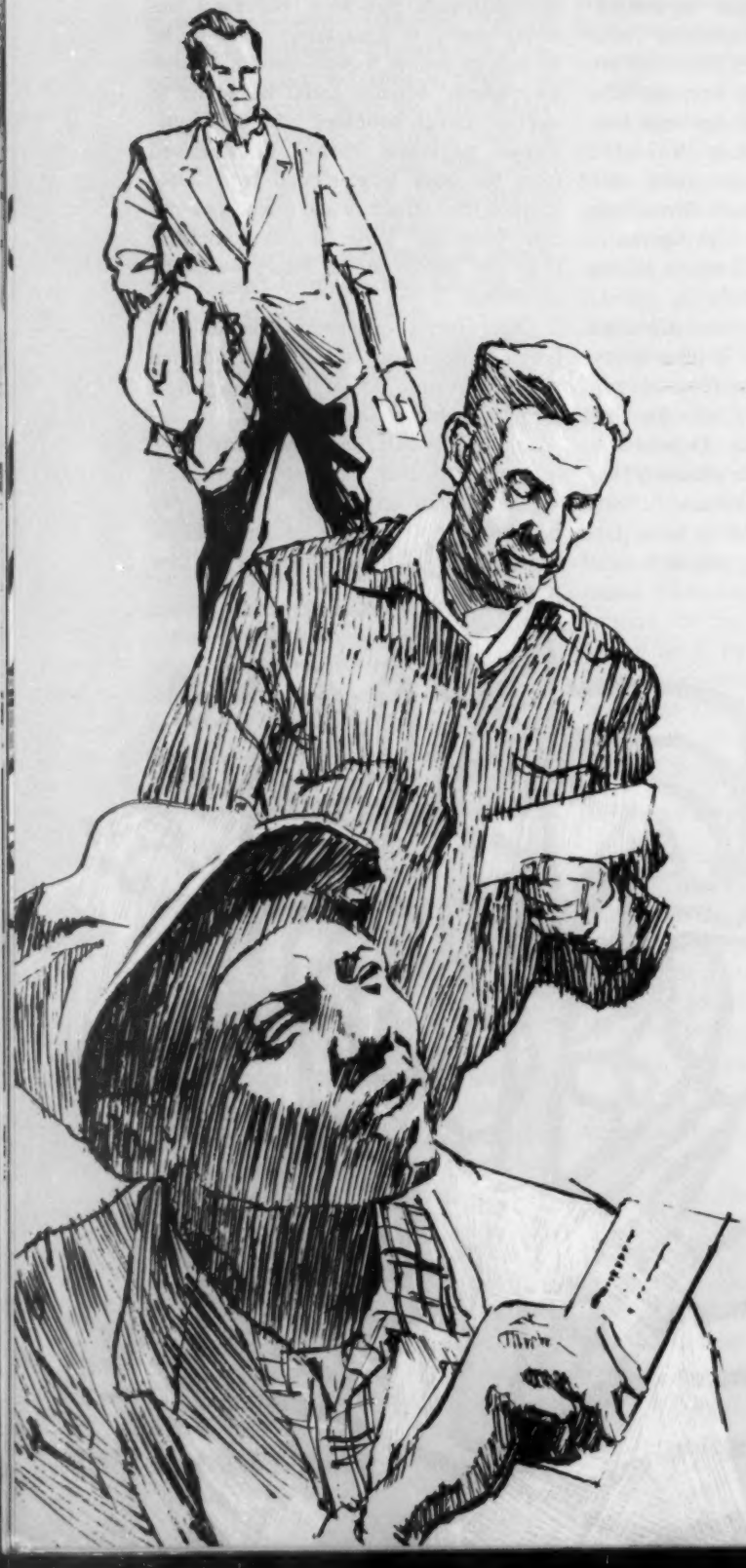
Weighted schedules and dependents' benefits, on the other hand, are desirable variations. They represent a different principle, social "adequacy," that ought to be balanced with the idea of equity. They are particularly relevant to antipoverty purposes. The two components of an economic definition of poverty are income and family size. In a large family of low income, it is a reasonable presumption that subsistence standards are pressing close and that benefits should be tailored accordingly.

The national goal of eliminating poverty entails reconsideration of the balance between the principles of equity and adequacy. In a real sense, this adjustment is overdue and has inhibited the maturation of unemployment insurance. Other programs have successfully made this adjustment. The adjustment between adequacy and equity in Old-Age and Survivors' Insurance was made in 1939 when dependents' benefits were added and qualifying requirements were liberalized. Adequacy considerations also figured in blanketing in those over 72 and in raising the minimum benefit in 1967.

By contrast, unemployment insurance has never been reevaluated in these terms, probably because the concept of employer accountability in financing has forced a too rigid posture. Dependents' benefits were established primarily because the decline in maximum benefits relative to wages appeared to be a permanent feature and there was a restless probing for ways out of a bad situation.

New programs are being urged to combat poverty which may have an effect on unemployment insurance. For example, the Nation may adopt a system of children's allowances payable without regard to need, similar to those in effect in Canada and many other countries. If this development were certain, it would be wise to keep dependents' benefits out of unemployment insurance. But since this development is uncertain, it would be foolish to follow a wait-and-see course. Dependents' benefits could be added to unemployment insurance now as supplemental payments clearly distinguished from the basic wage-related benefit. By keeping their structure and financing separate from the basic insurance benefit, their elimination in the future would be simplified.

Other forms of income maintenance based on need, such as a poverty-oriented negative income tax or a noncategorical form of public assistance, might be enacted. In this case, the fundamental role of unemployment insurance probably would remain unchanged. Jobless pay benefits simply would be computed as income in deciding entitlement to the new payments.



Layoff Procedures

By Harold N. Rosemont

Whatever the goals of organized labor on a year-to-year basis, its ultimate job security objective has been a guaranteed annual wage. This concept received a great deal of attention during World War II, but labor and management generally recognized that it was not feasible to establish such a system, standing by itself, in mass production industries.

A more workable approach seemed to be to start with the existing public unemployment insurance system, and to negotiate private supplements between corporations and the unions. An eligible laid-off worker would be paid his regular unemployment insurance benefits by the State plus a certain amount of money by the employer. Thus, in a practical sense, the guaranteed annual wage and supplementary unemployment insurance are interrelated and therefore it was only logical that supplementary unemployment benefits should have emerged in 1955 as an outgrowth of the drive for the guaranteed annual wage.

How do supplementary unemployment benefits affect the individual worker? Generally, they guarantee him a certain percentage of his regular earnings should he be laid off. The percentage varies from industry to industry. Suppose a worker's wages are normally $100 a week. The contract between his employer and his union might guarantee him 80 percent of that if he were laid off. If his regular unemployment insurance pays him $50, then the company must pay him the remaining $30 in the form of supplementary unemployment benefits.

The worker's guarantee generally increases as he gains more seniority. The longer he has been on the job, the more he is paid in case of a layoff. These higher benefits could possibly lead a senior worker facing a short-term layoff to prefer not working to working. He may want to take advantage of an "inverse seniority layoff" or "preferential layoff," a new trend in contract provisions which permits him to accept a layoff and let a worker with less seniority continue on the job.

The order in which employees are laid off has become particularly important recently because of the nationwide effort to find jobs for the hard-core unemployed. Under ordinary procedures, these newly hired workers would be the first

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s and Benefit Eligibility

laid off. Permitting senior employees to be laid off first might make it possible to avoid taking recently hired disadvantaged workers off the payroll, particularly in the case of temporary cutbacks. In view of the interest in this issue and the growing number of inverse seniority layoff provisions, it may be profitable to review how this matter has been handled in Michigan and to take a look at what may develop in the future.

Several local seniority agreements were negotiated in 1967 covering layoffs for definite, short periods (such as inventory or model change layoffs). The layoffs were to be made in the customary order—employees with least seniority to be laid off first. But these agreements also provided an option permitting senior employees in a given occupational group to be laid off out of line of seniority. In other words, a senior employee exercising this option could choose to be laid off instead of a less senior employee in the same occupational group. The Michigan Employment Security Commission held that employees who exercised the option were on a leave of absence. They were not unemployed within the meaning of the Michigan Employment Security Act and therefore were ineligible for benefits.

Some of these agreements also allowed a senior employee who had been on a preferential layoff for a specified minimum period of time to return to work by giving advance notice to the company. The commission's position was that the giving of such notice terminated the leave of absence. If the employer had no work for the employee at the time of the notice, he was in fact laid off for lack of work and became eligible for unemployment benefits.

The local seniority agreements subsequently were amended to change the layoff procedure. Instead of calling for senior employees to be laid off last unless they requested otherwise, the revised agreements stipulated that layoffs would be on the basis of inverse seniority. Senior employees would be laid off first, but they could apply to continue to work. However, the contracts give no assurance that jobs will be available for them. The commission's administrative position has been that employees separated under these inverse seniority provisions are laid off for lack of work and are eligible for benefits. Their failure to apply to continue to work does not affect the payment of benefits.

But if an individual accepts an inverse seniority layoff and fails to request that his employer keep him on the job, isn't he unavailable for work? Should he be ineligible for benefits? An argument can be made that he should be.

There is, however, a valid counterargument. The reasons for a layoff—such as lack of work or a desire of the employer to reduce his work force—are not changed by the method used to select the employees to be separated. What difference does the system chosen by the employer make? The concern of the unemployment insurance system should be whether the worker is laid off because of lack of work and is genuinely in the labor market.

Another argument against giving benefits to a senior worker who does not exercise his option to request continued employment is that the denial would be in accord with the policy of paying only those persons unemployed due to no fault of their own. The individual who fails to request to be kept on the payroll presumably could be employed if he exercised that option. There is no guarantee, however, that a senior worker who accepts a preferential layoff could have continued working. The contracts that have been reviewed provide only that such a worker has the right to request continued employment.

It should also be pointed out that the failure of a worker to ask for continuance on the job will not directly affect the number of persons receiving unemployment benefits. If all other factors remain constant, a given employer will lay off a certain number of employees without regard to their seniority or bumping provisions of a union-management contract. The number of applicants for unemployment benefits will also remain constant, no matter which workers are selected for separation.

There is one more important point to consider. If all workers with seniority were denied benefits because they did not request continuance, thousands of individuals could be made ineligible even though only a handful of jobs were available in the plant where they formerly worked.

To hold ineligible those senior workers who fail to request continued employment would appear to require a complete revision of the claims and adjudication process. It would no longer be feasible merely to accept the statements of workers

Layoff Procedures and Benefit Eligibility

continued

and employers, even though they might be in agreement, that unemployment was due to "lack of work." It would be necessary to find out whether an individual claiming benefits had any options to "bump" or to request continuance and, if so, whether he exercised these options. Over the years Michigan has not held ineligible those workers who have failed to volunteer for general inventory and maintenance work or similar jobs during short-term layoffs such as model changeover. Eligibility has been based on whether individual workers were made specific job offers, in which case the "refusal of work" provisions of Michigan law have been applied.

As noted earlier, preferential layoffs in inverse seniority sequence is a new development and is being closely watched by everyone concerned. What is of particular interest—to government as well as to management and labor—is how it will apply to the hard-core unemployed. These men and women have only recently been added to employer payrolls. They have little seniority and less likelihood of competing successfully in the labor market.

If they are laid off first in accordance with previous practices, they might not qualify for unemployment benefits because of insufficient wage credits. For those who do qualify, benefits would probably be minimal. Applying the principle of inverse seniority layoffs would let them remain at work earning wages for an indeterminate additional period of time.

But this would work smoothly only in case of short-term layoffs. The difficulty arises when an employer has a reduction in force, or a long-term or indefinite layoff. The main question concerns high seniority workers laid off by an employer who continues operations with lower seniority workers of the same grade or class. Under Michigan law the employer can protect senior workers by requesting a waiver of the requirement that unemployment benefit claimants must register for and seek work. But such requests are honored only for short-term layoffs of up to 45 days.

Thus in the event of long-term layoffs, senior workers are left vulnerable to the argument that they should be denied unemployment pay if they fail to make their services available to other employers. And suppose they do enter the job market and are hired by another employer. This would defeat the purpose of inverse seniority layoffs because the regular employer would be left with less-skilled lower seniority workers.

The argument to deny benefits is even stronger if the labor-management contract gives high seniority workers an option to terminate their layoff and displace low seniority workers who have been retained. However, if they have no such option, and if their return to work is strictly according to normal seniority or to the wishes of the employer, the case for denying benefits is weakened.

The overall picture right now is not clear. Unemployment payments should be made only to those people whose actions are reasonably calculated to lead to their reemployment. The course of conduct that can reasonably be expected is different for those facing long-term unemployment than it is for those facing short-term unemployment. Under this criterion the principle of inverse seniority can be applied successfully for short-term layoffs. As for long-term layoffs, it will be interesting in the months ahead to see what develops.

Financing Jobless Benefits

By TAULMAN A. MILLER

A passing glance at the major indicators of the financial health of the Nation's unemployment insurance system could easily lead to the conclusion that there are no problems today in unemployment insurance benefit financing. How can there be financing problems when, for the country as a whole, contributions have exceeded benefit payments by a reasonably comfortable margin every year since 1961 and when the total reserves of the system have increased from $5.8 billion at the end of 1961 to $11.7 billion at the end of 1968? Add to this the decline in the average annual insured unemployment rate from 5.6 in 1961 to 2.3 at the end of 1968, and the absence of a sense of urgency in discussions of unemployment insurance issues, particularly financing, is not surprising.

However, it is not difficult to identify one aspect of unemployment insurance that is an urgent problem with obvious implications for benefit financing. Benefits are inadequate. In 1967, the average weekly unemployment payment was less than 35 percent of the average weekly wage of workers covered by the system. An unemployment insurance system which yields such results has fallen short of a reasonable replacement of wages lost due to unemployment. Enactment of Federal minimum benefit standards offers the best hope for resolution of this problem.

Turning to the financing of benefits, close examination of the system's financial structure reveals features that could easily generate urgent problems.

- There are grounds for doubts about the sufficiency of reserves in a number of States to meet the burdens of a recession similar to the ones the Nation experienced in 1958 and 1961.
- There are weaknesses in the design of the present system of taxing employers to pay the cost of unemployment benefits.
- Experience rating—the practice of basing an employer's tax on the number of claims or amount of benefits paid or payable to his former employees— has led to some unfortunate consequences.
- The conceivable reappearance of long-term unemployment raises the issue of Federal participation in benefit financing, as does the wide disparity among the States in the potential cost of benefits should long-term unemployment recur.

All of these issues should be viewed within the context of a system which has as its fundamental goal the reasonable replacement of wages lost from involuntary unemployment for limited periods of time by workers with a history of previous employment. Unemployment insurance is not the appropriate instrument to combat poverty, though it should help to prevent poverty for those covered, nor should it be expected to cope with a wide range of manpower problems or finance a variety of manpower programs. Today's problems of benefit financing are essentially the adequacy and efficiency of financial arrangements for meeting benefit costs in the 1970's.

Yearend reserves (calendar years) of the unemployment insurance system reached an alltime high of $11.7 billion in 1968. The pre-1960 peak was nearly $9 billion in 1953 and was followed by a decline to the post-World War II low of less than $6 billion in 1961. There has been a steady and significant accumulation since that year. Expressed as a percentage of total wages of workers covered by the system, a more meaningful figure, reserves reached a peak of 10.4 percent in 1945, declined steadily to a low of 2.9 percent in 1961, and rose to 3.7 percent in 1968. Table 1 shows the financial record of the system for the 1960's.

Yearend reserves for the country as a whole at the end of 1968 amounted to 1.81 times the highest benefit cost rate

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for any 12-month period in the 10 years beginning January 1958. This multiple exceeds by a small percentage the widely cited standard of minimum reserve adequacy of 1.5 times the highest 12-month benefit cost rate.

The structure of our unemployment insurance system does not permit judgment of its financial strength on the basis of aggregate data for the country as a whole.

At the end of 1968, there were 15 States whose reserve funds were less than 1.5 times the highest benefit disbursement rate from the State fund in any 12-month period since January 1, 1958. In another 12 States, the reserve multiple ranged from 1.5 to 1.99. By contrast, 11 States had reserve multiples of 3.0 or better. In terms of the test of reserve adequacy developed by the Bureau of Employment Security some years ago, at least 15 State systems are at present inadequately funded.

TABLE 1

EMPLOYER CONTRIBUTIONS, BENEFIT PAYMENTS, AND YEAREND RESERVES, 1960-68

	EMPLOYER CONTRIBUTIONS		BENEFIT PAYMENTS		YEAREND RESERVES	
Year	Dollars (millions)	Ratio to Total Wages	Dollars (millions)	Ratio to Total Wages	Dollars (millions)	Ratio to Total Wages
1960	$2,289	1.17	$ 2,727	1.40	$6,643	3.41
1961	2,450	1.23	3,423	1.72	5,802	2.91
1962	2,952	1.39	2,675	1.26	6,273	2.95
1963	3,019	1.35	2,775	1.24	6,648	2.98
1964	3,048	1.27	2,522	1.05	7,296	3.05
1965	3,053	1.18	2,166	0.84	8,357	3.24
1966	3,030	1.07	1,771	0.62	9,828	3.46
1967	2,678	0.89	2,091	0.69	10,778	3.57
1968	2,552	0.80	2,032	0.64	11,717	3.71

Source: 1960-67, Bureau of Employment Security, **Handbook of Unemployment Insurance Financial Data**; 1968, Bureau of Employment Security, **Unemployment Insurance Program Letter #1013.**

Since the impact of unemployment does not respect State lines, it is perhaps unfortunate that the Nation's unemployment insurance reserves do not constitute a single pool to underwrite the potential needs of the 1970's. As a consequence of our system, each State must maintain reserves adequate to meet its own potential benefit costs. Since both theory and historical evidence show that some States will have to pay out much more in benefits than others, consideration must be given to the complex problems of providing Federal support of State benefits and the relative merits of Federal loans versus Federal grants to States whose reserves become seriously depleted.

However, several major considerations indicate the desirability of reexamining this solvency standard. The economic history of the 1960's, with its unprecedentedly long period of uninterrupted expansion, is different from the history of the 1950's when the standard was developed. The decade of the 1970's may repeat either pattern or develop its own.

It also must be remembered that the potential liability of the unemployment insurance system for benefit payments expands steadily. The number of covered workers grows with expanding employment; average weekly benefit payments increase modestly with rising wages; and there should be further statutory increases in the amount of benefits.

Finally, potential unemployment insurance liability varies substantially from State to State, depending on the structure of the State's economy.

The history of financial operations of the Nation's unemployment insurance system through the 1960's reveals growing strength overall, but also shows that a moderate recession could produce difficulties in a number of States.

Employer Costs Low

The system's financial record also shows that unemployment insurance costs have been low for employers. The average employer tax rate over the 10-year period 1959-68 was 1.1 percent of total wages in covered employment; for the 5 years 1964-68, it was 1 percent.

Thus it would appear that the benefits that have been paid American workers have been purchased at something of a bargain for American industry, particularly in light of the original cost estimates of 2.7 percent of total payrolls implied by the provisions of the Social Security Act of 1935. Unfortunately, the low cost of unemployment insurance is at least in part a consequence of a system that has provided an average weekly benefit approximating 35 percent of average weekly wages in covered employment for more than 20 years. It seems clear that the system could afford substantial improvement in the level of benefits.

Significant improvements in benefits will require additional revenues, especially in some States, if the requisite financial strength of the system is to be maintained. The most obvious and promising source of additional revenues is an increase in the obsolete $3,000 tax base, preferably by amendment of the Federal Unemployment Tax Act. Such action would be a direct, simple, and equitable method for generating additional revenues.

As of January 1969, 22 States had a taxable wage base of more than $3,000, the majority of them $3,600. The number of such States has increased steadily from six in 1960, but State fears that their employers will be disadvantaged in interstate competition are a strong inhibiting force holding down industrial taxes, and congressional action probably will be required to establish an adequate and realistic tax base. There is also evidence that the Federal Government requires additional revenues to meet its

commitments under the existing unemployment insurance program and an increase in the tax base would eliminate the need for further increases in the residual Federal unemployment tax, currently 0.4 of 1 percent of taxable wages for such purposes.

The Social Security Act of 1935 specified that unemployment taxes were to be levied on total wages in covered employment. In 1939, the financing provisions for unemployment insurance were reenacted as the Federal Unemployment Tax Act and the tax base redefined as the first $3,000 of wages paid to an employee during a calendar year. At the time it was considered desirable that the tax base for unemployment insurance be the same as that for old-age insurance. This objective apparently has long been forgotten, for the old-age insurance tax base has been raised several times and presently stands at $7,800, while the unemployment insurance tax base has remained frozen at $3,000 in Federal law and in the majority of States.

Another feature of old-age insurance which has either been forgotten or ignored in unemployment insurance is that the tax base and the base for benefit computations are identical. In a majority of States today, unemployment insurance benefits may be based on earnings significantly higher than the $3,000 tax base.

Tax Rate Inequities

Failure to increase the tax base appropriately has been the greatest weakness in the tax structure of our unemployment insurance system. The steady rise of wage levels has opened an increasing gap between taxable wages and total wages. Taxable wages amounted to approximately 98 percent of total wages in 1938 and 1939, dropped to 61 percent in 1960, and stood at 53 percent of total wages at the end of 1967. Consequently, the standard unemployment tax rate of 2.7 percent of **taxable** payrolls is currently equivalent to a rate of about 1.35 percent of **total** payrolls, a reduction of nearly one-half since 1938-39.

The average employer tax rate for 1968 is estimated at 1.5 percent of **taxable** payrolls (the result of experience rating) and 0.8 percent of **total** payrolls, again nearly 50 percent less. Thus there has been a substantial reduction in the effective rate of unemployment insurance taxation over and above the reductions generated by experience rating. This kind of tax reduction is inconsistent with the need for increased revenues to finance an adequate benefit structure.

The steady decline in the ratio of taxable to total wages also introduces an element of inequity into the unemployment tax structure. The effective tax rate (the rate assigned to an employer expressed as a percentage of his total payroll) varies with the level of wages paid to his employees. Employers in low-wage firms, industries, or areas pay taxes on substantially higher percentages of their total wage bill than do employers in high-wage firms, industries, or areas.

For example, under a maximum $3,000 tax base, an employer with a 2 percent

contribution rate whose employees are paid $4,000 per year has an effective tax rate of 1.5 percent; a second employer with the same 2 percent contribution rate whose employees earn $6,000 per year has an effective tax rate of 1 percent. An increase in the tax base would reduce this kind of inequity.

An opposing view asserts that employers who provide stable employment usually pay higher wages and that low-wage employers tend to be those with unstable employment. Consequently, an

increase in the tax base would increase tax payments more for high-wage, stable employers than for low-wage, unstable employers and thus would be inequitable. However, there seems to be no significant evidence to support the assertion underlying this argument.

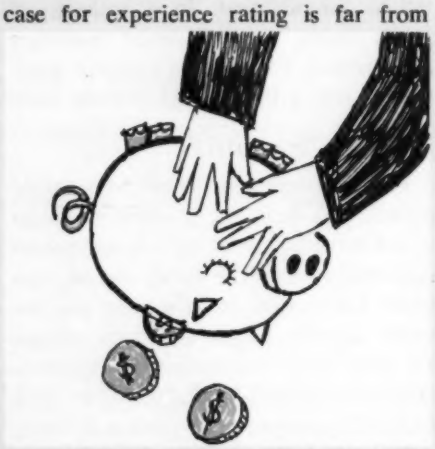
Another consequence of a fixed tax base that may have adverse implications for benefit financing arises out of the fixed tax base's interaction with the formulas used to compute benefits. In a large number of States, benefit payments, both the weekly amount and the total amount payable in a benefit year, may be based on earnings that are greater than the maximum tax base. Thus a portion of benefits are paid on the basis of earnings not subject to tax payment. This resembles an insurance plan which promises benefits of $5,000, but collects premiums on the basis of a maximum risk of $3,000.

In the case of unemployment insurance, as total wages continue their upward trend, total benefits will rise, sharply in the event of recession. But because the pay of most workers already is above the maximum tax base, particularly in States where the $3,000 ceiling exists, increases in wages do not bring more money into the unemployment insurance fund. Thus any increase in benefits sufficient to diminish reserves appreciably will, through the operations of experience rating, put strong upward pressure on employer tax rates. A higher tax base would alleviate this kind of pressure.

How much should the tax base be increased? The only answer that even approaches a precise figure is to say at least to the level of wages used for benefit computation. Beyond that, it becomes a matter of estimating the financial needs of the system and recognizing the desirability of step-by-step increases to avoid sudden and drastic changes. The general consideration to be kept in mind is that the social and economic objectives of unemployment insurance require that priority attention be given to the development of an adequate benefit structure. Given a desirable benefit structure, the task is to develop and maintain rational and efficient financing.

Experience Rating

Experience rating is a central feature of unemployment insurance in the United States and has been the subject of a great deal of controversy. While the theoretical case for experience rating is far from



unassailable, the principle is firmly established in our system. Certain features of experience rating pose potential problems for benefit financing. Under any experience rating system a tax structure can be constructed to balance tax rates with benefit costs while maintaining proper reserves. Precision of the balance implies, however, that not only benefits charged to an employer's account but all benefits paid in the State do in fact influence the year-to-year adjustment of employer tax rates.

There are two fairly common situations in which this adjustment process does not function. One is the rather widespread practice of not charging to an employer's account benefits paid (following a period of disqualification) to persons who quit voluntarily or who are discharged for misconduct or who have refused suitable work. Not charging these benefits to the employer is a denial of the experience rating principle.

It is illusory to assume that because these benefits are not charged to individual employers State reserve funds escape liability. Unless these noncharges are financed by specific allocation of tax revenues or covered by interest earnings on reserve funds, they constitute a leakage in reserve funds and ultimately will have to be financed by all employers through an increase in the level of taxes.

So-called ineffective charges cause an even greater leakage from State reserve funds. In every State there are a varying number of deficit accounts—employers whose payments to the unemployment insurance fund are less than the benefits charged to their account. At the same time, every experience rating system of necessity includes maximum employer tax rates. When benefits are charged to employers with deficit accounts who are already paying the maximum rate, the charges are actually "ineffective" since the employers' tax rates can't be raised. But payment of these benefits does deplete State reserve funds.

An important consequence of ineffective charges and noncharging is that certain costs of unemployment insurance are shared by all employers. The problem is to recognize the existence of these common costs and design methods to finance them to avoid depletion of reserves and the resulting upward pressure on contribution rates.

Recognition of the existence of common costs directs attention to another irrationality of existing experience rating systems, the presence of zero or very low minimum rates in tax schedules. Employers who are assigned a zero rate are excused from bearing any share of the common costs of benefit financing; those with very low rates escape a portion of the common costs.

Although the volume of common costs will vary from State to State, it would seem reasonable that the minimum tax allowed any employer should approximate common costs expressed as a percentage of taxable payrolls. Alternatives are the establishment of higher maximum rates (a considerable amount of this was done during the 1960's), which will reduce common costs to some degree, or the establishment of a uniform supplemental assessment. A substantially higher taxable wage base would reduce ineffective charges in a more effective manner than an increase in the maximum tax rate.

There are many other debatable aspects of experience rating and existing tax structures, but most of them bear less directly on benefit financing. Financing has become steadily more complex in its structure with a bewildering array of alternate tax schedules and a wide variety of fund protection provisions. While recognizing the need for variation to meet differences in the economies of the States, careful study of the possibilities of simplification and rationalization probably would be productive.

It would also be desirable to remove the barrier erected by the Federal Unemployment Tax Act against devising and experimenting with new methods of tax adjustment. This barrier is the provision that permits credits for reduced State tax rates only if the reductions are made through an experience rating system. There is some irony in the fact that those who protest most vigorously against Federal minimum benefit standards as limiting freedom of action by the States defend a Federal standard for tax rate reduction plans.

Comment on potential problems of unemployment benefit financing in the 1970's would be incomplete without mention of another possible development—a recession. The rather hastily improvised plans for temporary extension of unemployment benefits established in 1958 and 1961 make it clear that lengthening periods of unemployment and mounting benefit exhaustions would again create a demand for extension of the duration of benefit payments. Eight States have already incorporated provisions for extending benefit payments to claimants who exhaust their regular benefits during periods of high unemployment.

Recession unemployment, however, clearly develops from causes that are inherent in the entire economy and its impact varies significantly among the States. The design of our existing Federal-State system of unemployment insurance should be limited to its original objective of providing protection against essentially short-term (up to 26 weeks) unemployment. Both of these considerations lead to the conclusion that an extended benefits plan should be added to the present system to become effective in the event of significant increases in unemployment. Details of the triggering mechanism—at what level of unemployment do extended benefits become payable, do they become payable in all States simultaneously or in any State in which unemployment becomes significant—will take careful study.

Extended Benefits

Extended benefits should be financed with Federal funds. Potential sources of these Federal funds should be the subject of searching analysis. Since existing effective tax rates for unemployment insurance are quite low, it would appear that with a reasonable increase in the tax base, the accumulation of special reserves for extended benefit payments via an increase in the Federal unemployment tax would not place an intolerable burden on payroll taxation.

Should careful actuarial studies point toward the opposite conclusion, the desirability of general revenue financing should be carefully explored. Although present levels of unemployment indicate no immediate need for extended benefit payments, the program should be established at the earliest possible date as a safeguard against future contingencies.

As a somewhat speculative possibility, it might also be suggested that a well designed extended benefits program with full Federal financing could mitigate the problem of potential Federal participation in the financing of regular benefits. Thus the perplexing issues of Federal loans versus Federal grants would decline in significance.

It would be interesting to see whether careful actuarial cost studies would confirm the implied assumption that the

separate States could provide adequate funding (including appropriate reserves) to finance regular benefits (up to 26 weeks at a reasonable weekly benefit amount). If this assumption were confirmed, then it probably would be necessary to design some type of leverage on the States to be sure that adequate funding for regular benefits was in fact provided. This kind of fairly clearcut division of Federal and State responsibility for financing unemployment benefits may be unrealistic, but the basic question of an appropriate and rational division for the 1970's is a significant current problem.

There are no immediate and urgent crises in unemployment insurance financing, but there are problems large and small which have implications for the future. To remain vital and dynamic in the face of continuing change, any institution needs constant study and revision. Unemployment insurance is no exception.

Keeping the Paymaster Busy

By Edward A. Wood

A Vietnam veteran receives unemployment compensation payments based on his military service while he looks for civilian employment.

A welfare mother striving to acquire a skill so she can get a job receives incentive payments while she is in training.

Readjustment assistance payments are made to an automobile plant worker whose job was moved or wiped out when production needs were affected by international trade agreements.

While he is learning a new skill to replace one made obsolete by technology, a production worker is paid training allowances and expenses, as is a ghetto dweller who is taking basic education courses before beginning job training.

Different statutes authorize these payments. They are funded by different appropriations. But all of these different payments are processed, issued, delivered, and accounted for by the disbursing system that was originated more than 30 years ago for unemployment insurance.

By comparison with the workloads of more recent years, the processing problems that faced the new Federal-State unemployment insurance system in the 1930's seem small. There were fewer claimants then and only one kind of claim. But the fledgling system did have to keep tax records, employer accounts, and benefit claims accounts, and to compute weekly payments individually for each claimant by complex formulas.

Other Programs Served

Few previous operations in Government or business had required the volume of payment processing, recordkeeping, mass accounting, and reporting systems required by the new unemployment insurance program. To meet these demands, tabulating and other mechanical equipment was used extensively and the unemployment insurance administrations began their long and continuing experience in the development of large-volume, high-speed accounting systems.

Further refinements and the use of additional and more sophisticated systems made it possible to handle with increasing efficiency the flood of claims that came with the end of World War II. Not only were there more claimants as war plants ceased production, but returning servicemen were eligible for unemployment payments under the Servicemen's Readjustment Act, popularly known as the GI Bill.

Although the GI Bill was primarily the responsibility of the Veterans Administration, the unemployment benefits it made available to millions of veterans were paid through the existing unemployment insurance system. This was only one of many times that the unemployment insurance system has expanded and adapted its operations to handle payments for new programs that were not its primary responsibility. The most recent example is the experiment now underway in eight States testing the effectiveness of the unemployment insurance system in processing wage payments for sponsors of Neighborhood Youth Corps summer jobs programs.

Over the years, the versatility of the unemployment insurance system has been demonstrated by its handling of readjustment assistance payments under the Automotive Products Trade Act; training allowance, incentive expense, subsistence, wage subsidy, relocation assistance, and other payments under the Manpower Development and Training Act; and payments under the Work Incentive Program of the Social Security Act. The skill and lack of fanfare with which the disbursing

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responsibilities of these programs have been accomplished often have obscured the complexities that would have been involved in developing new and separate payment systems for each of them.

It appears beyond dispute that it has cost substantially less to add new payment duties to the existing system than it would have to develop separate new systems for each new program. In view of the additional burden the unemployment insurance system has already absorbed, it would be wise at this point to assess the possibility and desirability of further expansion.

Has the payment mechanism of the unemployment insurance system reached its capacity? To what extent can payment activities of other programs be absorbed? Is the system used to best advantage merely by assigning it disbursing responsibilities for other programs which continue to maintain their individual payment schedules and payment entitlement rules? Or should existing programs be revised and new programs be planned to facilitate the use of the payment capabilities of the unemployment insurance system?

Payment Control

The standard practice has been for the payment responsibilities of some training, work-experience, and similar programs to be delegated to the unemployment insurance system. Each program which uses the unemployment insurance system as a paymaster maintains control over the amount of and entitlement to payments. This technique could continue to be used.

Another possibility would be to have separate eligibility rules for each program but uniform payments. This method could be taken a step further by making the statutes authorizing various training and social programs deal only with the provision of various services. The amount of payments and the eligibility requirements for receiving them could be established as a separate function to be handled by the unemployment insurance system.

Because the unemployment insurance system operates an established, efficient, nationwide disbursing system, consideration could be given to making it the single source for all income-maintenance payments for job training and similar programs. Payments could be uniform for all persons in similar circumstances engaged in the same type of activity. The organization responsible for the actual training program would determine enrollment eligibility and would supply evidence of enrollee participation in the program as the basis for entitlement to payments. The payment system and professional training services would cooperate but operate independently.

What advantages might such a system offer? Personnel responsible for the various social, training, work-experience, counseling, or other services would be relieved of payment details and could concentrate on their professional skills. Uniform payments would eliminate the temptation for an individual who has a choice of available services to select one of less potential social value because it offers higher support payments. With a single payment system, individuals might be less reluctant to transfer to another training program because this would no longer mean that a check might be missed or delayed while switching from one pay system to another. Control and avoidance of duplicate or overlapping payments would be simplified.

Use of the unemployment insurance system as a disbursing agent need not be limited to the types of training programs and similar services now in existence. It could serve the same function should new concepts be introduced that require income maintenance payments on a local basis to individuals at frequent and regular intervals. Income maintenance payments to individuals who are being readied for job training or other programs designed to make them self-supporting could fall in this category. Use of unemployment insurance machinery as a disbursing system recently helped facilitate the orderly transfer of enrollees from discontinued Job Corps centers to other programs.

One proposed method of helping people calls for assignment of social credits to individuals which they may use for training or other services. Here, again, the unemployment insurance system could be the mechanism for making these credits available and controlling their use.

Further Study Needed

All of the foregoing ideas are matters for discussion rather than well-formulated plans. A primary consideration for unemployment insurance administrators is whether expansion of the system would interfere with its fundamental mission of serving the unemployed.

There also are questions that concern the planners and managers of other programs. Is control of program objectives lost if payment responsibilities are delegated, or can the payment system perform completely as a service function? Is creativity and ingenuity stifled by the need to fit payment activities into preestablished patterns? Or, in the case of already established programs, might not creative thinking be stimulated by the necessity to reexamine operations in order to implement a new method of payment? These and other important questions remain to be answered.

The payment capability of the unemployment insurance system is an established and valuable resource. In the past, this resource has been pressed into service to aid other programs more as a decision of the moment than as a well-devised plan. To assure that this resource is put to the most productive possible use in the future, careful consideration is needed of its potential and its limitations.

President Asks Stronger Jobless Pay System

President Nixon has proposed far-reaching legislation to strengthen and modernize the Nation's unemployment insurance system.

The President's proposal will extend coverage to an additional 4.8 million workers, require benefits for those in training programs, and automatically extend benefits in times of high unemployment.

The legislation requested by the President was introduced in the House last month by the chairman and the ranking minority member of the House Ways and Means Committee, among others.

"In human terms," the President declared, "the recommended changes will better enable a worker to weather the adversity of unemployment and to find a suitable job."

Asserting that the best time to strengthen the unemployment insurance system is during a period of relatively full employment, Mr. Nixon cited three principles to be considered in making the program "responsive to our times":

(1) Unemployment insurance is an earned benefit; (2) unemployment insurance is one of the foremost examples of creative Federal-State partnership; and (3) unemployment insurance is an economic stabilizer.

With Federal and State action involved, the specific recommendations would:

- Protect an additional 4.8 million workers, extending the act's coverage to businesses with fewer than four workers, farms employing four or more workers in each of 20 weeks, and agricultural processing. The President said present gaps in coverage "work a disproportionate hardship on minority workers," since a higher percentage of the 4.8 million are nonwhite, compared to the entire work force.

To cushion the impact on employers whose workers would be covered for the first time, the President recommended that States be permitted to lower the tax rates on newly covered employers until a record of employment experience can be compiled to determine what their true rates should be. He also urged "States and localities to take action, in light of their own circumstances, to include their own employees in unemployment insurance coverage."

- Make benefits adequate, meaning that at least 80 percent of covered workers should be able to receive a benefit equal to 50 percent of their own wages. States are called on to meet this goal within 2 years to avert the need for Federal action.

The President pointed out that most States subscribe to the principle that benefits should be 50 percent of wages, but benefit ceilings in State legislation have made it impossible to achieve this goal. For at least 2 out of 5 claimants, benefits fail to equal half their wages, he noted.

- Encourage retraining by requiring all States to permit workers to continue receiving benefits while enrolled in training programs to increase their employability. Currently, 25 States discourage retraining by denying benefits to workers in such programs on the theory that they are not "available for work."

Workers enrolled in training programs "are trying to keep themselves available by learning new techniques and technologies," the President said, "and Government certainly should stop penalizing them for doing something the government, business, and labor all want to encourage."

- Protect the insurance system by requiring that, for employers to receive tax credit, State laws would have to limit benefit eligibility to workers with at least 15 weeks of employment and to delete provisions which pay benefits to workers on strike after a specified period.

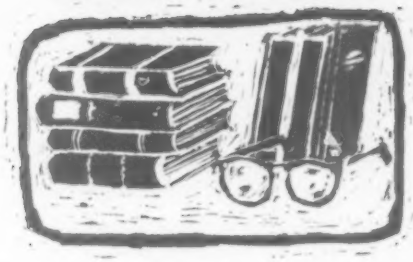
Benefit eligibility should be based on duration of past employment rather than the amount of wages earned, the President said. Basing benefit eligibility on flat dollar amounts "discriminates against the low-wage worker because it means he must work for a longer period to be eligible," Mr. Nixon said. He recommended prohibiting the use of flat dollar amounts as the sole basis for benefit eligibility.

- Improve responsiveness to economic conditions by providing a Federal program of extended duration to be triggered into operation when the national rate of insured unemployment has been at least 4.5 percent for 3 months. Under these conditions, individuals who exhaust their regular benefits would be eligible for up to an additional 13 weeks of jobless pay, with the additional payments financed by that portion of the unemployment tax now retained by the Federal Government.

- Strengthen and reform financing by raising the taxable wage base over a 5-year period to $6,000 and thereafter review the base periodically to assure adequate and equitable financing. In most States the taxable wage base for unemployment insurance is the first $3,000 of wages paid to each employee covered by the system.

Noting that in most States the wage base has remained unchanged for 30 years, the President said: "The low tax base places obstacles in the way of hiring low-wage workers because a substantially higher portion of their wage is taxed. In addition, the impact of the tax tends to encourage use of overtime rather than adding workers."

Research



Following is a list of recent reports completed under research contracts and grants from the Manpower Administration, U.S. Department of Labor. Copies may be obtained from the Clearinghouse for Federal Scientific and Technical Information, Springfield, Va. 22151 for $3 per paper copy or 65 cents per microfiche copy. Specify accession (PB) number and the precise title of the report, and send remittance with order.

CONTRACTS

A Comprehensive Assessment of the Problems and Characteristics of the Neighborhood Youth Corps Enrollees: A Pilot Investigation, by William C. Eckerman, Eva K. Gerstel, and Richard B. Williams, Research Triangle Institute (PB 183080).

Study of Neighborhood Youth Corps programs in North Carolina in 1968.

The Pre-Retirement Years: A Longitudinal Study of the Labor Market Experience of the Cohort of Men 45-59 Years of Age, by Herbert S. Parnes, The Ohio State University (PB 180539).

First report on a 5-year study that also covers three other age-sex groups.

The Transition From School to Work, National Manpower Policy Task Force (PB 182965).

Report on a symposium at Princeton University designed to assess the dimensions of youth unemployment problems and to discuss remedial efforts.

An Assessment of the In-School Neighborhood Youth Corps Projects in Cincinnati and Detroit, With Special Reference to Summer-Only and Year-Round Enrollees, by Gerald D. Robin, National Analysts, Inc. (PB 183081); Interview Schedule Supplement (PB 183082).

Minority Employment Patterns, 1966, by Orley Ashenfelter, W. E. Upjohn Institute for Employment Research (PB 180385).

Analysis of 1966 data collected by the Equal Employment Opportunity Commission from employers subject to title VII of the Civil Rights Act of 1964.

The Shortage of Skilled and Technical Workers, by Walter Franke and Irvin Sobel, University of Illinois (PB 180367).

Study of employers' responses to alleged shortages in two hospitals and four industrial occupations in two areas with a moderate labor surplus.

Supplemental Labor Market Information as a Means to Increase the Effectiveness of Job-Search Activity, by David W. Stevens, The Pennsylvania State University (PB 180531).

Description of experimental project involving unemployed workers applying to the Pittsburgh Employment Service office.

Supplemental Unemployment Benefits, by Joseph M. Becker, Cambridge Center for Social Studies (PB 178389).

Investigation of the first decade of supplemental unemployment benefits experience, with detailed analyses of different types of plans.

Manpower Implications of Alternative Priorities for Coping With Poverty, by Norman Frumkin, National Planning Association (PB 182143).

Projections of manpower requirements and shortages that would accompany various efforts to deal with poverty.

GRANTS

Hiring Standards for Paramedical Manpower, by Morris A. Horowitz and Harold M. Goldstein, Northeastern University (PB 179846).

Pilot study in Boston hospitals to explore the extent to which shortages of paramedical personnel reflect unrealistic hiring standards.

Manpower Planning and Forecasting in the Firm: An Exploratory Probe, by Herbert G. Heneman, Jr., and George Seltzer, University of Minnesota (PB 179078).

Pilot study of the extent and nature of manpower forecasting by individual firms in the Minneapolis-St. Paul area.

A Pilot Study to Determine the Feasibility of Investigating Nationally the Impact of Licensing Practices on the Availability and Mobility of Nonprofessional Manpower in Occupations Where Skill Shortages Exist, by Benjamin Shimberg and John V. Moe, Educational Testing Service (PB 178306).

Pilot study of occupational licensing procedures in five States and selected cities which led to two broader studies now in progress.

The Labor Market for College Manpower, by Richard B. Freeman, Harvard University, vol. 1, chapters 1-4 (PB 178704); vol. 2, chapters 5-9 (PB 178705).

Examination of the supply of high level manpower in the U.S. and of career decisionmaking of college graduates.

The Impact of Changes in Farm Characteristics on the Rate of Release of Labor Resources From Farm Production Activities in Selected Types of Farming Areas in Maryland, by John W. Wysong, University of Maryland. A three-part study; each part sold separately:

Private and Public Farm Manpower Policy Implications of the Dairy Farm Labor Resource Adjustment Process (PB 178775).

Factors Affecting Labor Use and Worker Productivity on Efficient Dairy Farms (PB 178776).

Labor Productivity and Labor Force Characteristics of Selected Types of Commercial Farms (PB 178777).

The Professional Socialization of Social Work Students, by Thomas H. Shey, New School for Social Research (PB 179660).

Exploration of effects of graduate education in social work on students' attitudes and expectations.

Industrial Recruiting Experience in Small City Job Markets, by Emmett Earl Wright, University of Arkansas (PB 179749).

Investigation of manpower sources for six new factories in two small southern cities.

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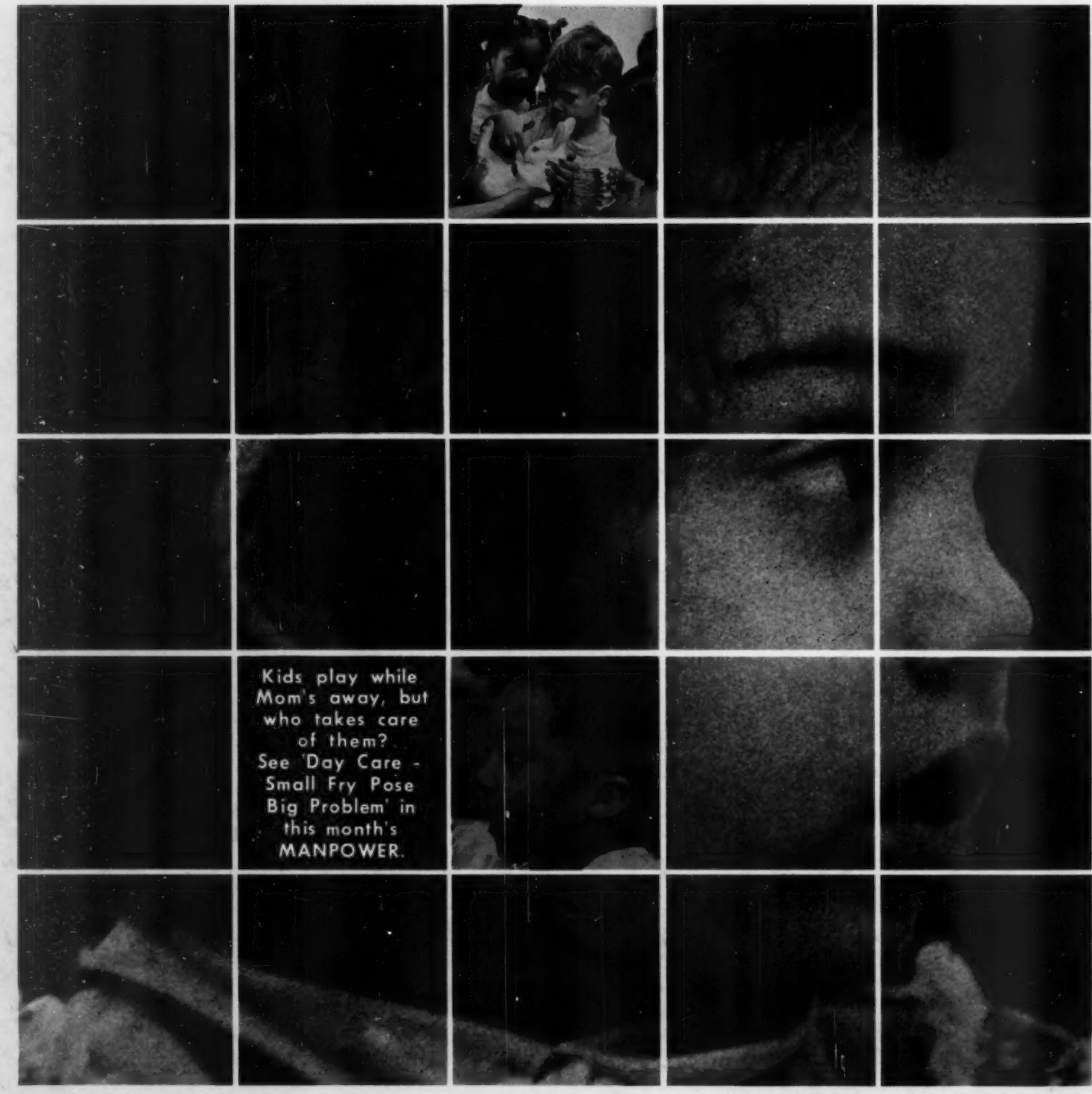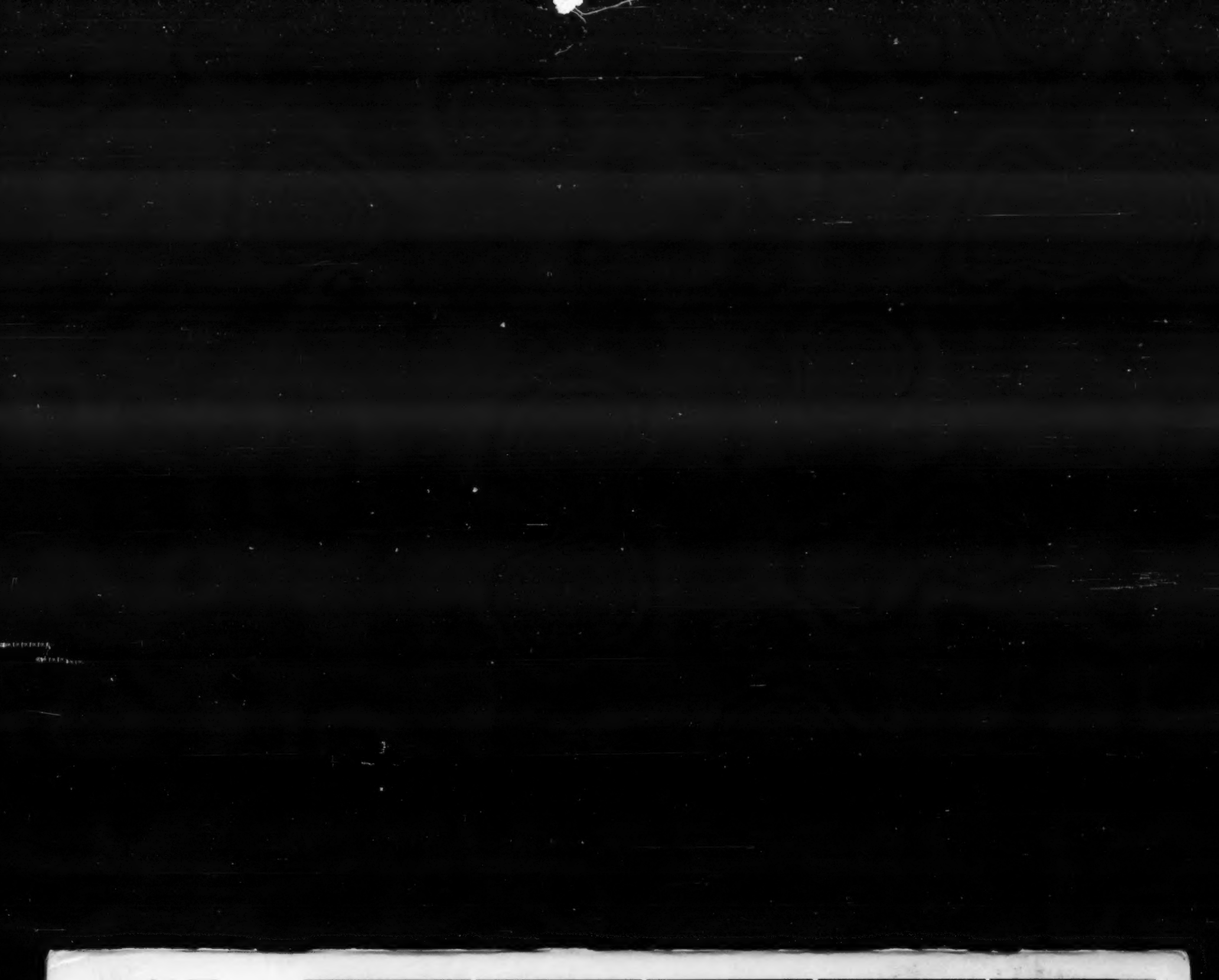
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